P.A.C. No. 592
1,100

PUBLIC ACCOUNTS COMMITTEE
(1977-78)

(SIXTH LOK SABHA)

FIFTY-THIRD REPORT

SUGAR EXPORTS IN 1974 AND 1975

MINISTRY OF COMMERCE

[On paragraph 27 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil)]

Presented in Lok Sabha on 23-12-1977
Laid in Rajya Sabha on 23-12-1977

LOK SABHA SECRETARIAT
NEW DELHI

December, 1977/Pausa, 1899 (S).

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4	44	known	know
6	8	exports.	exports,
13	10	go	got
14	11	coop	crop
18	8	lose	loss
20	46	held	hold
23	2	Government's	Government's
26	27	expert	export
27	46	came	cane
32	15	ot	to
41	7	of	at
46	14	eft	of
46	42	adn	and
48	17	proprtion	proportion
48	48	Delete the word 'by'	
49	11	proceured	procured
51	18	condition,	conditions,
51	18	purchased	purchases
53	16	content	context
54	43-44	Interchange	43rd line with 44th line.
55	38	occupations,	occasions. The
55	53	Ds.	Rs.
57	5	The	They
57	13	accuring	accruing
58	49	vitated	vitiated
63	22	F.o.g.	f.o.b.
65	32	expert	export
70	25	.under	.Under
71	39	Delete the word 'to'	
75	41	States	sales
77	17	are	as
79	14	reference	references
95	11	realise	realised
95	43	Delete the word 'of' after the word 'whether'	
99	2	Add the word 'are' after the word 'connection'.	
104	2	an	are
117	42	less	loss
118	42	Add the word 'we' after the word 'delayed'	
	45	same	some
119	6	ords	words
	10	mere	mere
	13	large	lesser

Page	Line	For	Read
120	22	Negas,	Nogas,
121	11	postponed	postpone
122	5	Tranding	Trading
134	42	questions	quotations.
137	31	unsually	unusually
	33	Corporation	Corporation
139	19	Add after the words 'Corporation's' the following: 'foreign offices and the Indian Trade Missions,	
	25	efficcacy	efficacy
142	33	limted	lifted
144	34	national	notional
	36	contractor	contract
224	23	secretary	Secretary
230	26	lowr	lower
233	9	than	then
233	46	unreasoable	unreasonable.
236	12	are a	area
244	7	necessaryily	necessarily

P.A.C. No. 592

1,001

PUBLIC ACCOUNTS COMMITTEE (1977-78)

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NEW DELHI

December, 1977/Pausa, 1899 (S).

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23-6-1976 (FN)

23-6-1976 (AN)

24-6-1976 (FN)

20-12-1977(AN)

*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.

PUBLIC ACCOUNTS COMMITTEE

(1977-78)

CHAIRMAN

Shri C. M. Stephen

MEMBERS

Lok Sabha

*2. Shri Halimuddin Ahmed
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4. Shri Brij Raj Singh
5. Shri Tulsidas Dasappa
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Rajya Sabha

16. Smt. Sushila Shanker Adivarekar
17. Shri Sardar Amjad Ali
18. Shri M. Kadershah
19. Shri Piare Lall Kureel *urf* Piare Lall Talib
20. Shri S. A. Khaja Mohideen
21. Shri Bezawada Papireddi
22. Shri Zawar Hussain

SECRETARIAT

1. Shri B. K. Mukherjee—*Joint Secretary*.
2. Shri H. G. Paranjpe—*Chief Financial Committee Officer*.
3. Shri Bipin Behari—*Senior Financial Committee Officer*.

*Elected with effect from 23 November 1977 *vice* Sarvashri Sheo Narain and Jagdambi Prasad Yadav ceased to be Members of the Committee on their appointment as Ministers of State.

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Fifty Third Report of the Public Accounts Committee (Sixth Lok Sabha) on paragraph 27 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil) relating to Sugar Exports in 1974 and 1975.

2. The Report of the Comptroller & Auditor General of India for the year 1974-75, Union Government (Civil) was laid on the Table of the House on 26 March, 1976. The Public Accounts Committee (1976-77) examined paragraph 27 of the said Audit Report at their sittings held on 23rd and 24th June, 1976, but could not finalise the Report on account of the dissolution of the Lok Sabha on 18 January, 1977. The Public Accounts Committee (1977-78) considered and finalised this Report at their sitting held on 20 December 1977 based on the evidence taken and the further written information furnished by the Ministry of Commerce and the Department of Agriculture. The Minutes of the sittings form Part II* of the Report.

3. A statement containing conclusions/recommendations of the Committee is appended to this Report (Appendix XXIII). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the commendable work done by the Chairman and the Members of the Public Accounts Committee (1976-77) in taking evidence and obtaining information for this Report.

5. The Committee also placed on record their appreciation of the assistance rendered to them in the examination of this paragraph by the Comptroller and Auditor General of India.

6. The Committee would also like to express their thanks to the Officers of the Ministry of Commerce for the cooperation extended by them in giving information to the Committee.

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

NEW DELHI;
December 22, 1977.
Pausa 1, 1899 (S).

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I

SUGAR EXPORTS IN 1974 AND 1975

Procurement of Sugar for Export

Audit paragraph :

1.1. The area under sugarcane increased from 24.5 lakh hectares in 1972-73 to 27.2 lakh hectares in 1973-74 showing thereby an increase of 11 per cent. The area under sugarcane during 1974-75 season is estimated to be 26.05 lakh hectares. The sugar season is from October to September. During 1972-73 the minimum basic cane price fixed by Government was Rs. 8 per quintal linked to a recovery of 8.5 per cent or below with a premium of 9.4 paise for every 0.1 per cent increase in recovery over 8.5 per cent. For the 1974-75 crushing season the minimum price was increased to Rs. 8.50 per quintal linked to a recovery of 8.5 per cent or below with a premium of 10 paise for every 0.1 per cent increase in recovery above 8.5 per cent.

1.2. During 1972-73 and 1973-74 Government continued the policy of partial control on sugar under which Government acquired 70 per cent of total production of sugar for priority internal needs and exports. The proportion of levy sugar was reduced from 70 to 65 per cent in 1974-75 season, keeping in view the expected higher production in that season and to offset the increased cost of production. The consumer price of levy sugar was kept unchanged at Rs. 2.15 per kg. throughout the country since 15 December 1972.

1.3. By an amendment of the Sugarcane (Control) Order in September 1974, the excess realisations accruing to the industry from the sale of free sugar are required to be shared with the growers in the ratio of 50 : 50 by way of additional cane price.

1.4. There are in the country two major associations of sugar producers—one for the private sector known as the Indian Sugar Mills' Association (I.S.M.A.) and the other for the co-operative sector known as the National Federation of Cooperative Sugar Factories Ltd. (N.F.C.S.F.).

1.5. Exports of sugar from our country during the calendar years 1970 to 1974 were as follows :

(lakh tonnes)

1970	1971	1972	1973	1974
3·18	3·32	0·99	2.49	4·43(A)

(A) Of this, sales by the Department of Food were 0.70 lakh tonnes and the rest was sales by the State Trading Corporation of India.

1.6. Production, consumption, exports and stocks of sugar during the 1972-73 and 1973-74 production seasons were as follows :

(lakh tonnes)

		1972-73	1973-74
(1)	Carry-over from previous season	5·99	8·64
(2)	Production	38·73	39·48
(3)	Total availability (1 plus 2)	44·72	48·12
(4)	Internal consumption	35·11	35·29
(5)	Exports	0·97	4·05
(6)	Closing stock (3 ,4 & 5)	8·64	8·78

1.7. In February 1974 Government had estimated that total production of sugar in the 1973-74 season would be 45 lakh tonnes. In the context of the anticipated increased production, the high international prices of sugar and the need for maximising foreign exchange earnings from exports, Government decided on 1 March 1974 that there might be a maximum export of 7 lakh tonnes (of which, as proposed by the Department of Food on 5 March 1974, 5 lakh tonnes might be levy sugar and 2 lakh tonnes free-sale sugar); four lakh tonnes were to be exported immediately. The exports were to be on the Government account, the entire profit accruing to Government. During the early part of the year export sales of 0.70 lakh tonnes were effected by the Food Department. Since early 1974 export of sugar has been entrusted to the State Trading Corporation of India on agency basis. The Corporation was to be paid a service charge of ½ per cent of sale price in addition to reimbursement of other expenses incidental to exports.

1.8. For export of 6.81 lakh tonnes of raw and white sugar between April 1974 and March 1975, total f.o.b. realisation was Rs. 333.19 crores, of which Rs. 26.26 crores were realised by Government from export of 0.7 lakh tonnes of raw and white sugars by the Department of Food. By the end of March 1975 State Trading Corporation credited to Government Rs. 126.14 crores as the net profit on sugar sales and adjusted Rs. 1.94 crores as its commission, bank guarantee charges etc. In addition the net profit of Government from export of 0.7 lakh tonnes of raw and white sugars by the Department of Food was Rs. 11.83 crores.

1.9. On 5 March 1974 the Department of Food proposed to the Ministry of Finance that 2 lakh tonnes of free sale sugar should be procured for export. Simultaneously, the Department of Food held discussions with the representatives of the industry on 26 March 1974 for purchase of free sale sugar. On 28 March 1974 the I.S.M.A. and the N.F.C.S.F. offered free-sale sugar to the extent of 30 per cent of total sugar export during the year 1974 subject to a ceiling of 2 lakh tonnes at the fixed negotiated ex-factory price of Rs. 290 per quintal (excluding excise duty) on the condition that the existing 70 : 30 proportion of levy and free-sale sugar would be continued during the year 1974. No time-limit for acceptance of the offer was specified by the industry. The Ministry of Food stated (December 1975) that "a definitive decision to export levy-free sugar was taken only in July 1974 and not earlier and the negotiations held with the industry for purchase of levy-free sugar in March 1974 before that decision was taken was purely an exploratory one with no firm commitments from either side."

1.10. The Ministry of Finance did not approve (28 April 1974) the proposal of the Department of Food for purchase of free-sale sugar and advised that the position should be reviewed by the end of May 1974 when the actual production would be known, by and large.

1.11. In the meantime, on 28 March 1974, the industry had informed Government that, according to its estimate, total sugar production during the 1973-74 season would not be more than 43 lakh tonnes (while Government's estimate in February 1974 was 45 lakh tonnes). Actual production of sugar upto April 1974 was 35.81 lakh tonnes, and in May 1974 Government's estimate of total production during the 1973-74 season was further brought down to 41 lakh tonnes. Actual production was 39.48 lakh tonnes which was somewhat more (by 0.75 lakh tonnes) than the production in the previous year, 1972-73.

1.12. On 24 May 1974 the Department of Food again proposed to the Ministry of Finance that 2 lakh tonnes of free-sale sugar should be procured for export. While doing so, the Department of Food sent the previous offer of the industry, viz., Rs. 290 per quintal ex-factory (excluding excise duty) to the Ministry of Finance for concurrence. The Ministry of Finance got the reasonableness of the price of Rs. 290 per quintal checked by the Chief Economic Adviser who certified that the price demanded by the industry was reasonable. Having regard to the decrease in the estimated production (as compared with the earlier estimates), the Ministry of Finance took the view that it would not be correct to take, for export, more than 4 lakh tonnes out of the levy quota and that only 1 lakh tonnes out of the free-sale quota might be procured for export. The Ministry also suggested to the Department of Food to negotiate with the industry to get as low a price as possible. This was on 1 July 1974.

1.13. The actual contractual position for exports committed by the State Trading Corporation till 16 July 1974 was as follows :

(Lakh tonnes)

(1)	Authorised for export in 1974 out of levy quota.	4·00
(2)	Raw sugar meant for U. K. and U.S.A. under international agreements.	1·00
(3)	Authorised for exports (to other than U.K. and U.S.A.) (1-2)	3·00
(4)	Less already sold by the Department of Food before transfer of work to the State Trading Corporation.	0·44
(5)	To be exported by the State Trading Corporation (3-4)	2·56
(6)	Quantity contracted by State Trading Corporation till 16 July, 1974.	2·64

1.14. The State Trading Corporation continued to contract for additional exports, and between 17 and 23 July 1974 entered into contracts for export of 0.55 lakh tonnes more. Thus, by the latter date the Corporation entered into contractual obligation for export of 0.63 lakh tonnes of free sale sugar while arrangement for their procurement from the internal market had not been made. In the meeting of the Special Committee on sugar headed by the Secretary of the Department of Food, held on 24 July 1974,

the representative of the Department of Food pointed out that "the Department of Food had not informed the S.T.C. of the additional provision of 1.00 lakh tonnes for export out of free sales quotas....."

1.15. Whole-sale price of sugar in the Indian market was almost steady between February and May 1974. It picked up in June 1974. As stated in the preceding paragraph the State Trading Corporation entered into more export commitments (which had to come from out of the free-sale quota) in July 1974, and the bullish trend in the market was maintained in July 1974 and August 1974.

1.16. In pursuance of the communication of the Ministry of Finance of 1 July 1974 referred to earlier, the Department of Food held a meeting with the industry on 15 July 1974 when the industry withdrew its earlier offer of March 1974 (Rs. 290 per quintal) *inter alia* on the ground that this price "was based on the expectations that if the Government had then desired to export sugar from the free quota, the free market price would have remained reasonably steady", but "the free market was unduly depressed in April, May and June due to larger arrival of Khandasari sugar and other factors which decreased the free market realisations considerably." The industry also suggested that State Trading Corporation which was handling sugar exports, should purchase sugar from the industry by inviting tenders or direct negotiations.

1.17. In view of this development, on 24th July, 1974 Government instructed State Trading Corporation not to enter into contractual obligations for export of the remaining 37 thousand tonnes (1 lakh tonnes from out of free-sale quota less 0.63 lakh tonnes already contracted for export), pending arrangement for their procurement in the country from the industry. Department of Food was also requested to make one more attempt to procure 1 lakh tonnes of free-sale sugar from the industry by negotiations.

1.18. Department of Food accordingly conducted negotiations with the industry on 5 August 1974. Both Indian Sugar Mills' Association and National Federation of Co-operative Sugar Factories Ltd., offered one lakh tonnes of sugar at Rs. 325 per quintal (excluding excise duty). Department of Food referred the offer to the Ministry of Finance on 6 August 1974 for acceptance. Reasons given by the Department of Food for accepting the higher prices were as follows :—

(i) Price offered represented mean of the free sale sugar prices in the different zones in the country.

(ii) State Trading Corporation having committed to the export had also to some extent contributed to the difficult situation.

(iii) The sugar season was coming to a close.

(iv) Festival season was approaching.

1.19. On the ground that by accepting the above offer, Government "would not really known whether Government had benefited or lost" in this deal, Ministry of Finance suggested to the Department of Food on 21 August 1974 that the Corporation should purchase one lakh tonnes of sugar by inviting tenders. The Ministry of Finance stated (December 1975) that "the industry's representative had mentioned during negotiations that

if the Department of Food went for tender, the price offered was likely to be lower. In fact even with reference to the free sale prices prevailing at the time the proposal was considered in the Ministry of Finance, the price offered by the industry was not particularly attractive. After excluding the element of excise duty and the normal storage, interest, transportation and handling expenses, the average price even for the Bombay market at the mentioned point of time was less than Rs. 320 per quintal. Thirdly, we were keen to get the benefit of price prevailing in the low-cost zones where the price would have been still lower. The price offered by the industry did not stipulate any time-limit and in taking a decision to go in for the open tender, the Government took a calculated risk which was well justified under the circumstances prevailing then."

1.20. During the period 5 August 1974 and 21 August 1974 the wholesale market ex-factory price was rising almost every day. The following table shows the wholesale market ex-factory prices per quintal prevailing in Bombay and Delhi during that period :—

Date	Whole-sale market price (export quality) per quintal ex-factory/(excluding excise duty, transport charges and wholesalers' commission)	
	Bombay	Delhi
	Rs.	Rs.
5-8-1974	324	316
7-8-1974	329	323
9-8-1974	331	323
12-8-1974	333	340
14-8-1974	353	343
16-8-1974	369	355
17-8-1974	369	358
19-8-1974	394	363
20-8-1974	391	370
21-8-1974	387	375

1.21. Before calling for tenders, the Corporation conducted negotiation with the industry on 4 September 1974 when the latter offered about 1.10 lakh tonnes at Rs. 340 per quintal. On the advice of Government the Corporation also floated a tender to all the sugar mills but the response was very poor. Subsequently, negotiations were again conducted with the industry by the Corporation on 18 October 1974 when the former agreed to sell only about 80,000 tonnes at the same rate, *viz.*, Rs. 340 per quintal on the condition that the factories should be paid 98 per cent of the price on presentation of documents without furnishing any bank guarantee, that the bank charges/commission incurred in respect of the despatches of sugar would be paid by the Corporation and that the factories should be permitted to sell sugar from both the production years 1973-74 and 1974-75. This was accepted by the Corporation as "only about 80,000 tonnes of exportable qualities were available at that point of time." Ultimately 90,349 tonnes were supplied at this rate.

1.22. State Trading Corporation's commitment as on 29 August 1974 for export during the year 1974 was 3.63 lakh tonnes including a commitment of 1.07 lakh tonnes from the free-sale quota. As the industry sup-

plied 0.90 lakh tonnes only at Rs. 340 per quintal, the balance 0.17 lakh tonnes was procured at Rs. 360 per quintal.

1.23. Total production of sugar in the 1973-74 season (39.48 lakh tonnes) was more than that in the 1972-73 season (38.73 lakh tonnes) by 0.75 lakh tonnes. The quantity released for internal consumption in 1973-74 was 35.29 lakh tonnes which was slightly more (by 0.18 lakh tonnes) than that in 1972-73, *viz.*, 35.11 lakh tonnes. Yet, for procurement of 1.07 lakh tonnes from the market for exports. Government, in the above milieu, had to pay (to the industry) Rs. 5.68 crores more than what it would have paid at the price of Rs. 290 per quintal which, having regard to the industry's cost structure, was certified by Government's Chief Economic Adviser as reasonable.

[Paragraph 27 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil) pp. 40—47].

1.24. The following table, compiled from information furnished, at the Committee's instance, by the Department of Food, indicates details of Area under sugarcane, sugar production, yield recovery, etc. during the sugar years (October-September) 1967-68 to 1974-75 :—

Area in '000 hectares.
Production in '000 tonnes.
Yield tonne per hectare

	1967-1968	1968-1969	1969-1970	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975
Area under Sugarcane ..	2047	2532	2749	2615	2390	2452	2752	2771
Sugar Production	2248	3559	4262	3740	3113	3873	3948	4797
Yield of sugarcane	46·7	49·2	49·2	48·4	47·5	50·9	51·2	50·6
Recovery Percentage ..	9·92	9·44	9·33	9·79	10·04	9·60	9·34	9·90
Duration of crushing season (Days @2·2 hours per day)	97	152	174	139	107	132	136	139

1.25. Exports of sugar from the country during the calendar years 1970 to 1975 were as follows :

(In lakh tonnes)

Year	Exports
1970	3·18
1971	3·32
1972	0·99
1973	2·49
1974	4·43@
1975	9·66

@Of this, sales by the Department of Food were 0·70 lakh tonnes and the rest by the State Trading Corporation (exports of sugar had been entrusted to the latter with effect from 8 April 1974)

1.26. Relevant data, compiled from the Audit paragraph and information subsequently furnished, at the Committee's instance, by the Department of Food, in regard to sugar availability, consumption, exports and stocks during the 1972-73, 1973-74 and 1974-75 sugar production seasons are tabulated below :

(In lakh tonnes)

Particulars	1972-73	1973-74	1974-75
Carry-over stocks from previous season ..	5·99	8·64	8·78
Production	38·73	39·48	47·97
Total availability	44·72	48·12	56·75
Internal consumption	35·11	35·29	34·57
Exports	0·97	4·05	9·24
Closing stock	8·64	8·78	12·94

1.27. The Audit paragraph points out that in the context of the anticipated increased production of sugar in the 1973-74 season (which was estimated at 45 lakh tonnes in February 1974), the high international prices of sugar and the need for maximising foreign exchange earnings from exports, Goernment had decided on 1 March 1974 that there might be a maximum export of 7 lakh tonnes of sugar. The industry had, however, informed Government on 28 March 1974 that, according to its estimate, total sugar production during the 1973-74 season (October 1973—September 1974) would not be more than 43 lakh tonnes. Actual production of sugar till April 1974 was only 35.81 lakh tonnes and in May 1974, Government's estimate of total production during the season was further brought down to 41 lakh tonnes. In spite of the downward revision of the estimates, from time to time, actual production during the season amounted to only 39.48 lakh tonnes, which was slightly more (by 0.75 lakh tonnes) than the production in 1972-73.

1.28. Since the export strategy for 1973-74 appeared to have been determined (with disastrous results as would be evident from the succeeding paragraphs of this Report) on the basis of unreliable estimates of production, the Committee desired to know the basis on which it had been estimated that sugar production in the 1973-74 season would be 45 lakh tonnes and the machinery, if any, available with Government for estimating the trends of production, consumption, etc. The Secretary, Department of Food stated in evidence :

> "So far as the estimate is concerned, it would be quite fair to say that the original estimates that we get are very rough estimates based on the area which is brought under cultivation of sugarcane. We get this information through two sources primarily. One is our Economic and Statistical Organisation which gets the information through the State Government as also their own officers who are located in various States. They get an idea of the area which has come under cultivation and depending on the type of weather they make an estimate of approxicate production which is likely to be available.

The second source of information we have is the sugar factories themselves. They are called upon to supply to the Directorate of Sugar and Vanaspati information in a proforma which requires them to let us know the area under sugarcane in the factory area itself for crushing in the plant; total yield of sugarcane per hectare; the quantity of cane likely to be available for crushing from October to September; estimated recovery; date of commencement and closure, that is, the period through which the factory would be working.

Based on these two sources of information, a very rough estimate is all that becomes available. But....you would appreciate that in an agricultural economy it is not only the area which is brought under cultivation but the other factors also come in, like quality of the seed, sowing conditions and right upto the harvesting stage so many factors come in and, I do not think, any country—even one which is best equipped technically—is in a position to tell fairly and accurately as to what would be the size of production of a particular crop."

Asked whether the data made available in this regard by the industry was verified with those compiled by Government agencies or exclusive reliance was placed only on the industry, the witness replied :

"In fact, we take both into consideration. So far as reliance is concerned, it is balancing of these with one's own judgement."

1.29. Since it had been stated that the estimation of sugar production was made, *inter alia*, on the basis of the data collected by the Economic and Statistical Organisation of the Department from the State Governments and its own offices located in various States, the Committee enquired into the machinery available with the State Governments for collecting requisite information in this regard and to what extent the State Governments placed reliance on the industry. In a note, the Department of Food informed the Committee as follows :

"Broadly, the State Governments through their Departments of Agriculture, Industries and Cooperation and the offices of the Cane Commissioner and Directorates of Sugar (where they exist) collect information in this regard and compile the data. This enables an assessment of the prospects of sugarcane and sugar production, keeping in view the data furnished by other parties such as the sugarcane growers associations, individual factories, Association of the Sugar Industry, etc."

1.30. The Committee desired to know the production forecasts made in respect of the 1973-74 sugar season both by the industry and the departmental agency. In a note, the Department of Food stated :

"The production forecast for 1973-74 made by the Department as early as in November 1973 on the basis of overall estimates of area under sugarcane by Economic and Statistical Organisation in the Ministry and the production envisaged by individual factories, was about 45 lakh tonnes. In addition, we get information about the prospects of production from the two organisations of the industry, i.e., the National Federation of Cooperative Sugar Factories and the Indian Sugar Mills Association."

The Department further added :

"250 sugar factories were expected to go into production in 1973-74 season. This total included 228 factories which had worked in 1972-73, 7 old factories which did not work in 1972-73, and 15 new sugar factories which were expected to go into production in 1973-74 for the first time. All these factories were asked on 21-7-1973 individually to furnish their estimates of sugar production for 1973-74 in the prescribed proforma. Two factories reported that they will not be going into production for 1973-74 season, 214 factories furnished their estimates by 4-9-1973 and the remaining 34 factories were periodically reminded to send their estimates soon. These were received towards the end of September 1973.

On the basis of the information thus received, the estimate of production was worked out as under :

	Lakh tonnes
(i) 227 factories which had worked in 1972-73 season	43·07
(ii) 15 new factories which were expected to go into production during 1973-74 season.	1·31
(iii) 6 old factories which did not work in 1972-73 season but were expected to work in 1973-74	0·07
Total :	44·45"

1.31. Asked what data was available with the Economic and Statistical Organisation in January-February 1974 on the basis of which sugar production had been estimated at 45 lakh tonnes, the Department, in a note replied :

"The Directorate of Economics & Statistics in the Ministry of Agriculture & Irrigation prepares the estimates of area and production of principal crops (including sugarcane) on the basis of data furnished by the State Governments and these estimates give a dimensional idea of the overall cane production, which is helpful in forecasting the trend of sugar production during the season. The second estimate of area under sugarcane for 1973-74 made by the Economics & Statistics Directorate on 23-1-1974 was 25.45 lakh hectares which is about the same as the estimate for 1969-70 made at about the same date in 1970. The sugar production in 1973-74 upto end of January 1974 as compared to that upto the same period in 1969-70 (when 42.6 lakh tonnes of sugar was produced) showed that an estimated production of 45 lakh tonnes in 1973-74 was not beyond reach.

(Lakh tonnes)

Year	Upto 31 January production	Total Production
1969-70	16·76	42·6
1973-74	17·81 (i.e. 6% increase)	45.16*

*Estimated.

1.32. In reply to another question in regard to the machinery available with the Department of Food to check the veracity and reliability of the data furnished by the industry so as to safeguard against the possibility of exaggerated and unrealistic forecasts, the Department, in a note, have stated:

> "Information on actual date of start of factories, their crushing capacity, cane availability and performance as the season progresses in terms of duration and recovery % sugar provide, in a reasonable measure, the parameters to monitor the estimated production."

1.33. The Public Accounts Committee (1974-75) had, however, been informed in October 1974 by a representative of the Department of Food during evidence relating to the Committee's examination of paragraph 19 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil), Revenue Receipts, Volume I, Indirect Taxes, [*vide* p. 55 of the Committee's 155th Report (Fifth Lok Sabha)] that the Department of Food had no machinery to check the installed capacity of sugar mills and the utilisation rate during the period of crushing and that this was done by the Excise Department. Drawing attention to this statement, the Committee desired to know how, in these circumstances, the Department of Food worked out on a scientific and realistic basis the estimates of sugar production in a particular year. The Secretary, Department of Food, stated in evidence :

> "I may just explain the position. So far as the installed capacity is concerned, that is quite a different matter and once in a few years we are in a position to check the installed capacity and we do that exercise. But it is not done every year. But the pertinent point which you have very rightly brought out is how much sugar is produced in a particular year or month to month or day to day and what is the type of machinery we have to check it. You have correctly said that there used to be Excise Inspectors on the spot on behalf of the Finance Department and they used to keep these figures or records. But now this system has been given up and the new system has been adopted by the Finance Ministry which is the 'self-removal procedure'. Under this system the sugar factories themselves report to the Department. Of course, they have surprise checks, rather than regular checks. We can only say this with the records and we do not have any independent records of our own."

A representative of the Department, who had also appeared before the Committee on the earlier occasion added in this context :

> "As I said on the last occasion, the Directorate of Sugar has no staff specifically engaged on the verification of the installed capacity of various factories from time to time."

1.34. The Committee, therefore, asked how the utilisation rate which influences production was determined. The witness replied :

> "The utilisation rate is only calculated with reference to the production *vis-a-vis* the installed capacity."

He added :

> "What we do is once in about 10 years we review the parameters which are prescribed to make an assessment of installed capacity of the factories, like average duration, recovery etc. in the zone in which the factories are situated and revise the installed capacity. At the time of the new factories being commissioned, the machinery suppliers give the necessary data in regard to the rated capacity of the machinery, etc. and on the basis of that we take note of the installed capacity which the factory can develop on the basis of the machinery capacity."

Asked whether the Department sought the assistance of the Excise Department from time to time in this regard, the witness replied :

> "We do not draw upon the help of the Excise Department."

The Food Secretary, however added :

> "It is correct to say that we do not take the help of the Excise Department, so far as verification about the installed capacity is concerned. So far as production every year is concerned, we have been getting information from them about the quantity produced. Since the procedure now is different, we have to go by records. We have also to find out as to how they have been collecting excise duty. Now the information which they have in this regard is certainly useful, but it has nothing to do with the installed capacity; it has got to do with the actual production. The installed capacity is a different thing."

1.35. On 1 June 1968, for the purpose of levy of Central Excise duties, the Self Removal Procedure (SRP) had been introduced by Government in respect of 59 commodities which includes sugar. Under this scheme, excisable goods produced by a manufacturer could be cleared by him after he had determined the duty liability himself, without a central excise officer having to be present for assessment or clearances. Reviewing the working of the Self Removal Procedure Scheme in operation in the Central Excise Department, the Central Excise (Self Removal Procedure) Review Committee (constituted by Government in October 1971), have pointed out, *inter alia*, in their Report (September 1973) that "Sugar was one of the commodities in respect of which there was considerable amount of evasion and that one of the methods employed to evade duties was the underweighment of cane." It was alleged before this Committee that for this purpose certain factories arrange for powerfull magnets to be placed below cane weighbridges, well-paid mechanics being employed for this job. The Committee's report also points out that manipulation of accounts so as to claim higher rebates or larger refunds is also practised. It is thus a moot point how far it is sound to place an excessive reliance on the data furnished by the industry.

1.36. With reference to the statement that the installed capacity of the sugar industry was verified by technical personnel once in ten years, the Committee desired to know the agency which was entrusted with this responsibility. In a note, the Department of Food stated :

> "In assessing the installed capacity in the Sugar Industry, the following factors are taken into consideration :—
>
> (i) installed machinery capacity expressed in terms of quantity of cane that can be crushed per day in 3 shifts;

(ii) season's duration of crush; and

(iii) average sugar recovery obtained for the entire crushing season.

The capacity of the machinery is normally designed, and stated by the sugar machinery manufacturers broadly in conformity with the standard specifications prescribed by the Government of India for standard plants which currently crush 1250/2000 tonnes per day. In an agro-based industry like sugar, which depends on the local raw material the annual production of sugar is dependent not merely on the capacity of the machinery to crush a given quantum of cane in a day, but also governed by other more important factors of duration of the season and the sugar recovery obtained.

At the beginning of the first Five Year Plan, the Planning Commission assessed the installed annual sugar production capacity of the Sugar Industry. Subsequently, the responsibility was entrusted to the Development Council for Sugar Industry which appointed Committees from time to time for this purpose."

Asked when the last verification was carried out and what the review indicated, the Department informed the Committee that last review was done on 1 January 1969 (1968-69 sugar reason) and added :

"Prior to the review, the installed capacity of the sugar industry was fixed at 36.12 lakh tonnes of annual sugar production. This capacity was refixed at 33.03 lakh tonnes after reassessment as on 1-1-1969. The revised figure was obtained on the basis of the working results (average duration and recoveries) of the sugar factories for the previous 10 years, i.e., from 1958-59 to 1967-68."

1.37. The following table indicates the licensed and installed capacities of sugar factories in the country during the period 1960-61 to 1975-76 :

(In lakh tonnes)

Year	Total Licensed capacity	Total installed capacity
1960-61	28·84	24·47
1961-62	N.A.	25·16
1962-63	34·19	26·85
1963-64	37·77	28·74
1964-65	41·56	30·54
1965-66	43·38	32·25
1966-67	43·58	33·78
1967-68	44·76	34·69
1968-69	40·51*	33·03*
1969-70	48·50	35·56
1970-71	49·12	37·00
1971-72	53·17	39·19
1972-73	55·47	41·42
1973-74	56·83	43·06
1974-75	72·30†	44·98
1975-76 (To date)	73·25†	46·81

(1) *Capacity reassessed in 1968-69 season.

(2) †Includes capacity allowed under liberalised policy.

(3) N.A.—not available.

1.38. The area under sugarcane in 1969-70 was 27.49 lakh hectares and an all-time high production of 42.60 lakh tonnes was achieved that season. On the other hand, there was a slight decrease in the area under sugarcane in 1973-74 (27.52 lakh hectares). The Committee, therefore, asked how it was assumed by Government that in 1973-74 the sugar production would increase to 45 lakh tonnes in spite of the decrease in the area under sugarcane. The Secretary, Department of Food, replied in evidence :

> "I should imagine that the question would be the price element, that is, the prices which were paid for the sugarcane in different areas and also the yield which one go in the various areas. For instance, in the year 1969-70, I noticed that the yield per acre was 19.9 tonnes while in the case of 1973-74, the yield was 20.7 tonnes. So, there was the increased yield indicated by this figure per acre and certainly we had hoped for a larger crop."

1.39. The Committee desired to know when relevant data in regard to sugarcane yield was available to the Department and on what basis this was assessed. In a note furnished in this regard, the Department of Food stated :

> "The 2nd estimate of sugarcane acreage for 1969-70 and 1973-74 season issued by E&S Directorate showed the position as under :

Year	Date of issue	Acreage under cane ('000 hectares)
1969-70	23-1-1970	2541·3
1973-74	23-1-1974	2544·9

> It will be observed that according to the 2nd estimate made in January 1974, acreage under sugarcane was almost the same for both the years 1969-70 and 1973-74. The sugar production upto the end of January 1970 was 16.76 lakh tonnes during 1969-70 season and 17.81 lakh tonnes during 1973-74 season and this gave an indication that sugarcane production in 1973-74 could be higher than in 1969-70 season. With the acreage being constant in both the years (1969-70 and 1973-74) the expectation of higher cane production in 1973-74 could be the result of a higher per acre yield in 1973-74 than in 1969-70 season. This came out to be true when the 'All India final estimate of sugarcane in 1973-74' giving the figures of sugarcane acreage as well as sugarcane production was later published on 19-9-1974 by the E&S. Directorate which showed a per acre yield of 20.7 tonnes of sugarcane in 1973-74."

In view of the fact that the yield would not be uniform throughout the year and was likely to vary, particularly in the summer months on account of driage of the cane, the Committee asked whether this would be a reliable yardstock for estimating production in a year. In a note, the Department replied :

> "Sugar production is estimated on the basis of cane availability, its percentage utilisation by the sugar industry and the average sugar

recovery % sugarcane, all for the season as a whole and the yield of cane per acre for the season, forms the basis of cane availability."

1.40. As has been pointed out earlier, while production in the 1973-74 season initially estimated at 45 lakh tonnes was revised to 43 lakh tonnes by the industry in March 1974 and to 41 lakh tonnes by Government in May 1974, actual production worked out to only 39.48 lakh tonnes. Asked why there was such a wide variation between the estimates and actuals, the Secretary, Department of Food replied in evidence :

"As I had submitted earlier, the production at the beginning of the year is a very rough approximate idea of what we are likely to get. Since the area under sugarcane coop was fairly good, it was expected that we might have good sugar production that year also. But various factors, like the recovery, the rains and the frost and Pyrilla infestation affected the total quantity. In the month of October 1973, we found that we were running short of about 40,000 tonnes as compared to the previous year. In the next month again, there was a shortage and, progressively, we started making it up. By the end of April, we had, more or less, come to the same production figure as we had by then in the previous year. In other words, at the end of April, we had a total production of about 35.8 lakh tonnes as against 36.4 lakh tonnes in the previous year. Then, in the next month, in May, we were slightly better off than in the previous year. The production went upto 37.8 lakh tonnes as against 37.53 lakh tonnes in the previous year. It went on like that. Finally, we ended up with a figure of 74,000 tonnes more than the previous year.

Depending on the rate at which the production was coming up, right upto February, we were still hopeful that it might catch up. But further rate of progress was such that we started having doubts ourselves in the month of March and we felt that we could not hope to achieve the figure of 45 lakh tonnes."

He added :

"There were certain factors, the important one being weather ultimately there was lack of winter rains and Pyrilla infestation and the effect was on the crops and that effect was perilous. Now, these factors were responsible so far as sugarcane was concerned and the recovery fell down from the previous year's figure of 9.60 tonnes to 9.34 tonnes. In other words, drop is about 0.26 tonne and if one compares with the previous year's figure, the drop would be 2.5% approximately."

1.41. According to the June 1974 issue of 'Indian Sugar', Pyrilla is a seasonal pest commonly occurring during June to September when the recovery is even otherwise low on account of deterioration of the quality of the cane during the summer months. It goes on to point out that though there was reappearance of the pyrilla pest, it was confined only to Eastern Uttar Pradesh. The average recovery of sugar for the year 1972-73 and

1973-74 in Uttar Pradesh is indicated below :

	1972-73	1973-74
Eastern U. P.	9·23%	8·85%
Western U. P.	9·55%	3·01%
Central U. P.	9·68%	9·03%
All India average	9·57%	9·34%

1.42. The sugar season is broadly divided into three periods, viz., early crushing period (October-November), normal crushing period (December-April) and late crushing period (May-September). In the early period, the crop is not fully ripe for crushing and hence recovery of sugar is less. Similarly, in the late crushing period, after April, as summer approaches, cane is not available in abundance and the available cane also starts deteriorating, leading to lower recovery of sugar. It was also stated by the Secretary, Department of Food that on account of lack of winter rains and frost in the 1973-74 sugar season, the sugarcane crop was affected. In view of the fact that these factors ought to have been well known to the Department, and it was also known by the end of the normal crushing period (April 1974) that sugar production was only 35.81 lakh tonnes as against the production of 36.42 lakh tonnes achieved by the end of April in the previous year, the Committee desired to know on what basis the Department had anticipated, in May 1974, that the total production during the season would be 41 lakh tonnes. In a note, the Department of Food have stated :

> "It was on 24-5-1974, when the question of procurement of free sale sugar for export was referred to the Ministry of Finance again that the production of sugar in 1973-74 was estimated to be not more than 41 lakh tonnes. The basis for this is given below :

(Figures in lakh tonnes)

	1972-73	1973-74
1. Production upto 22/5	37·33	37·57
2. Number of factories in operation on 23/5. ..	27	60
3. Production from 23/5 to 30/9	1·40	3·11*
4. Total production (1+3)	38·73	40·68

*Estimated."

1.43. Since it had been conceded that the estimates projected by the Department at the beginning of the sugar season were only 'very rough' and approximate and that the actual production was dependent on various factors, the Committee asked whether the Department had analysed in detail these factors and attempted to devise a suitable system for a more accurate forecasting of production so as to reduce the wide gap between the estimates and actuals. In a note, the Department of Food replied :

"The Directorate of Economics and Statistics, in the Ministry of Agriculture and Irrigation prepares estimates of area and production of principal crops (including sugarcane) on the basis of data furnished by the State Governments. The first, second and final estimates generally become available on 1 July, 31 October and the end of May respectively. These estimates give a dimensional idea of the overall cane position.

The factories also furnish to the Department of Food their estimate of sugar production taking into account the area under sugarcane cultivation in the factory zone, past record of crop performance with due regard to prevailing weather conditions and field tests for yield of cane per hectare and sugar content of cane.

Since the preliminary estimates are thus made in advance of the season, there are variations in the actual production on account of changed climatic conditions, incidence of pests and diseases, etc. Besides, the availability of sugarcane to the factories is also affected by diversion to Gur and Khandsari depending upon the price these manufacturers offer to the growers of sugarcane. Apart from the quantitative availability of sugarcane to a factory, the production of sugar is also influenced by the quality of the cane (sugar content) and this is governed by the condition of the crop during the season.

These factors making for uncertainty are such that they do not lend themselves to making a more accurate forecast of production."

1.44. As pointed out earlier, on the basis of the assumption that the total production of sugar in the 1973-74 sugar season would be 45 lakh tonnes, Government had decided on 1 March 1974 that there might be a maximum export of 7 lakh tonnes of sugar during the year. The Committee learnt from Audit in this connection that this decision had been communicated to the Department of Food by the Cabinet Secretary in his letter dated 1 March 1974, which reads as follows :

"The Cabinet considered at its meeting held on 27 February 1974 the note from the Department of Food on 'Sugar Production, Availability and Exports'. In amplification of the formal minutes, which have issued separately, I write to confirm that the total quantity to be exported this year is 700,000 tonnes inclusive of commitments to U.K., U.S.A. and other countries under international or bilateral agreements and that the quantity approved for immediate export to take advantage of the high ruling prices is 400,000 tonnes.

The modalities for export may kindly be worked out urgently in consultation with Shri. . . . (the then Commerce Secretary) to whom I am endorsing a copy of this letter."

1.45. Explaining, during evidence, the background to the decision to step up exports of sugar to 7 lakh tonnes, the Secretary, Department of Food, stated :

"Now, we also wanted to export more which was the need of the hour then because it followed a very acute drought year which we had in the country. A lot of food had to be imported and the foreign

exchange requirement was very large. Therefore, the Government of India had decided that we should export as much sugar as we can. In the light of that, we started examining."

He added :

"Government is given a picture of the total production. We did say in our note that so much will be available from this and so much will be available from that : we gave only the total picture of production, carried over stocks, the requirements and the excess and the modalities of exports will have to be worked out by the Department of Food in consultation with Finance Department."

1.46. Since the Government decision must have been taken on the basis of forecasts made by the Department of Food, the Committee called for a copy of the note submitted in this regard by the Department of Food. However, in a note furnished to the Committee, the Department have stated :

"The decision is based on a note submitted to the Cabinet by the Department of Food, and such notes are treated as privileged documents pursuant to Rule 270 of the Rules of Procedure and Conduct of Business in the Lok Sabha.

1.47. The Government decision communicated by the Cabinet Secretary also stipulated that the modalities of export were to be worked out by the Department of Food in consultation with the then Commerce Secretary. Asked whether this requirement had been complied with and, if so, what decisions were taken as a sequel to these consultations, the Department of Food, in a note, replied :

"To decide on the modalities of export after consultation with the Cabinet Secretary and Commerce Secretary, a Committee of Senior Officers of the Ministries of External Affairs, Commerce, Finance (both the Departments of Economic Affairs and Expenditure) and the Department of Food was formed. Meetings of this Special Committee were held on 13 March, 8 April, 10 May, 17 June and 24 July 1974 and 18 January 1975. The last meeting related mainly to export during 1975. Thus the Committee met 5 times to discuss matters relating to export of sugar during 1974. The Committee discussed matters relating to mode of sales to different countries on a Government to Government basis, export of raw sugar to U.S.A. and the quantity of white sugar to be sold by the STC."

1.48. The Audit paragraph points out that in pursuance of the Government decision of 1 March 1974, the Department of Food had proposed to the Ministry of Finance that two lakh tonnes of free sale sugar should be procured for export and had simultaneously held discussions with the representatives of the sugar industry on 26 March 1974 for purchase of free sale sugar. The Ministry of Finance had not, however, approved (28 April 1974) the proposal of the Department of Food for purchase of free-sale sugar and had advised that the position should be reviewed by the end of May 1974 when the actual production would be known by and large. In this connection, the Committee learnt from Audit that the Department of Food had stated (December 1975) as follows :

"It is true that the Department of Food *proposed* to the Ministry of Finance that 2 lakh tonnes of free sale sugar should be procured for export to achieve the target of 7 lakh tonnes. But the Finance Ministry did not agree to this proposal, as they were of the view that there might not be any necessity for procuring sugar out of free sale quota for export. All along in the past we had been exporting sugar only out of levy quota. As such it was felt by the Finance Ministry that any decision in haste would involve a lose of about Rs. 22 crores (and probably more), *i.e.* the difference between the levy price of sugar payable to the sugar mills and the price that may have to be paid to the mills for levy-free sugar in the procurement of free-sale sugar. Further, that Ministry felt that the position about production of sugar would be clear only by the end of May 1974 and the matter regarding the quantity to be exported out of free-sale sugar could be reviewed better at that time."

1.49. In view of the fact that all along in the past, exports of sugar had been effected only out of the levy quota, the Committee desired to know the reasons for the Food Department proposing that 2 lakh tonnes might be exported from the free sale quota, thus making a departure from past practice. The Secretary, Department of Food stated in evidence :

"As you are well aware, out of the total production of sugar in the country, 70 per cent was available for levy system and 30 per cent for free sale. That is the dual price system or partial decontrol system. Out of 70 per cent levy sugar which was available, we had to look to the requirements of public distribution system. After meeting the requirements of public distribution system in a reasonable manner, whatever is available can be exported.....In 1973-74, there was the need to earn the maximum possible foreign exchange and the decision was taken by the Government that we should try to export the maximum possible quantity. Based on the production figure of 45 lakh tonnes, we thought that the maximum that we could get from the levy side would be about 5 lakh tonnes. If we wanted to have some more, it had to come out of the free sale quota. It is in that context that we had started thinking on those lines."

He added :

"The decision really taken was that although we would export at that point of time about 4 lakh tonnes, the efforts would be made to export another 3 lakh tonnes. When this was the directive of the Government, we had to think how we would be able to implement it. One has to start thinking and try to find ways and means to comply with those instructions. Even then, we had said that four lakh tonnes is all that we could do because that was based on what we thought would be available from the levy quota, based on our experience, and ultimately, when we were able to do something near that, no additional effort was made other than what we had indicated. Our thinking was that if Government required to export more because of the need to earn more foreign exchange, it will have to be out of the levy free quota."

1.50. Since it was stated by the witness that the Department of Food had to think how they could implement the decision to export 7 lakh tonnes when it was "the directive of the Government", the Committee asked whether this was initially only abstract proposal which Government sent to the Department for working out the practical implications and whether Government had accepted the proposal to export two lakh tonnes from the free sale quota. The Secretary, Department of Food, replied :

> "It was in the note of 5 March, when we took a review of the whole thing, that we found that two lakh tons will have to come out of the levy-free quota. So, in our note we discussed the possibilities and we took it up with Finance."

In view of the fact that exports from the free sale quota would have been a more expensive proposition, the Committee desired to know whether it was the Department of Food which took this decision to make a departure from past practice or the decision was handed down by Government. The witness stated :

> "No single Department takes a decision by itself, it is taken in consultation with all the Departments concerned and, in this case, Finance Department had certainly to be consulted. In fact, Finance Department had not agreed to it, to begin with, because they were keen that we should wait and see if larger production would enable us to export the remaining two lakhs which we were thinking of also from the levy side rather than from the levy-free side and it is only subsequently, when they found no way out, that they ultimately agreed that it should be done from the levy-free quota."

Asked whether this implied that procurement of sugar for exports from the free sale quota was not approved by Government to begin with, the witness replied :

> "To begin with, no; on the contrary, just as we are anxious to make available the maximum quantity of sugar for export, that being my concern, the Finance Department's concern is to see that they get the maximum possible quantity of levy sugar because that would give maximum profits to the country. But the Food Department has also to see that reasonable quantities are available for public distribution also because it is out of the levy sugar that we provide to the common people most of their requirements at reasonable prices while, for the remaining, they have to go to the free market."

Clarifying the position further he added :

> "The position is like this. On the 5 March, thinking started in our Department and it would not be correct to say that a decision was taken. It was only the thinking part of it, the exploratory part of it, when we suggested that certain quantities—two lakh tons, to be specific—may have to be obtained from levy-free quota, if we wanted to keep to the 7 lakh tons export target we had thought of."

The witness also informed the Committee that in the Cabinet Secretary's letter of 1 March 1974 there was no mention that all the 7 lakh tonnes to be exported had to be found from the levy quota and stated :

"That is why, I said that so far as the modalities are concerned, it is a departmental function and it was to be worked out by the Department."

1.51. Copies of the notes which were exchanged between the Department of Food and the Ministry of Finance on this question were furnished, at the Committee's instance, by the Department of Food which are reproduced in Appendix I. The Committee found from the Note dated 5 March, 1974 containing the initial proposal of the Department of Food to export 5 lakh tonnes from the levy quota and 2 lakh tonnes from the free sale quota that after considering various pros and cons, the Joint Secretary (Sugar) had suggested the following course of action :

"As regards the free sale release, the position emerging from either of the two alternatives discussed in the preceding two paragraphs will be as follows :

(i) If 2 lakh tonnes of free sale sugar is utilised for export, the availability of free sale sugar for monthly releases within the country will be 7.72 lakh tonnes; spread over 8 months till the end of November 1974, the monthly release of free sale sugar can be about 1 lakh tonnes as there will always be some lapses every month.

(ii) If no quantity is drawn from the free sale quota for exports, with the present estimated availability of 9.72 lakh tonnes for release from April 1974 onwards, the release of free sale sugar may possibly be stepped up to 1.20 lakh tonnes a month as against the present rate of 1.05 lakh tonnes a month. This may be desirable, as to some extent it will off set the effect on prices resulting from reduced release of levy sugar at 1.85 lakh tonnes per month against the present rate of 2 lakh tonnes per month.

In conclusion, I would prefer that we draw 2 lakh tonnes for export from the free sale quota of the industry at a negotiated price unmindful of the reduction which it will entail in our profit on export of sugar, and maintain the monthly release of levy sugar at 2 lakh tonnes per month till the end of November 1974 giving additional releases to an aggregate quantity of 60,000 tonnes during May and June and festival months of October-November, and keep the release of free sale sugar at 1 lakh tonnes till the end of November 1974."

1.52. It would appear from the facts disclosed in the Audit paragraph that even before a final decision to effect exports from the free sale quota had been taken, the Department of Food had held discussions with the representatives of the sugar industry (on 26 March, 1974) and the *prima facie* conclusion that emerges therefrom is that this influenced considerably the subsequent course of events culminating finally in the procurement of sugar from the free sale market at prices of Rs. 340 and Rs. 360 per quintal as against the price of Rs. 290 per quintal quoted by the industry initially on 26 March, 1974. The Committee, therefore, desired to know why the Department of Food had gone out of its way to held discussions with the industry on 26 March, 1974 almost simultaneously after having submitted

the proposal to effect exports from the free sale quota. The Secretary, Department of Food stated in evidence :

> "It is not true that we simultaneously started negotiating with the industry.....We mooted this suggestion that to get seven lakh tonnes, we will have to get at least two lakh tonnes from the levy free sugar quota and that proposal was submitted to the Finance for their concurrence as is the normal practice. In the meantime, the representatives of the industry, who normally meet the officers of the Ministry in connection with their difficulties, their problems and assistance required, etc. or their advice to the Government on how to improve the production, happened to meet the officers of the Ministry."

Asked, in this context, whether this implied that the officers of the Department of Food were in constant touch with the industry even to the extent of revealing forthcoming Government decisions of this nature, the witness replied :

> "The industry keeps meeting the officers of the Department off and on with their problems, with their suggestions and with any developments that are taking place. On the 26 March the representatives of the industry met officials of the Department and, among other things, discussed about the possibility of exporting quantities more than what the country normally used to do and, in the exploratory talks, it was discussed as to what would be the manner in which Government would get larger quantities of sugar for export purposes if the production was going to be less. It was during these discussions that they said that the industry could cooperate and make available a limited quantity of 30% of the requirements—and then they said nor more than two lakhs from the levy-free quota. So, it is not that we called them; they had *suo motu* come to discuss some matters with representatives of the Food Department."

1.53. The Committee desired to know who had initiated the proposal for this meeting with the sugar industry, when it was mooted and who had proposed the agenda for the meeting. In a note, the Department of Food informed the Committee that "the proposal for meeting the industry's representatives on 26 March, 1974 was not initiated by any officer in the Department of Food" and that "the representatives of the industry had asked for time to meet the Joint Secretary and time was accordingly indicated." The Department also added that "no written request or agenda was received for this meeting from the industry.

1.54. Asked, in this context, whether adequate care was taken to ensure that the industry did not get to know, during what had been described as "purely exploratory" discussions, Government's thinking on this question, which could have been manipulated by the industry to their advantage, the Secretary, Department of Food replied :

> "Though the quantities were not known, the idea that we should maximise our exports and sell as much as possible was not unknown. You are absolutely right that so far quantum was concerned, it was a matter which was very secret and top secret and I can assure you that at this meeting that took place, I do not think the officers who met the industry ever disclosed to them as to what would be the quantity."

1.55. The Committee desired to be furnished with a copy of the minutes of this meeting with the industry. In a note, the Department of Food informed the Committee that while no minutes for the meeting held on 26 March, 1974 were prepared, a note giving the gist of the discussions held was submitted for the information of the Minister of Agriculture. The relevant note dated 28 March, 1974, submitted by the Joint Secretary, (Sugar), a copy of which was furnished to the Committee by the Department, is reproduced below :

> "Shri Pradeep Narang, President, Indian Sugar Mills Association, Shri R. L. Shukla, Chairman of the National Federation of Co-operative Sugar Factories, Shri M. L. Apte, Shri P. S. Rajagopal Naidu, and Shri D. K. Patel, accompanied by some officials of the ISMA and National Federation of Co-operative Sugar Factories saw me at 2.30 P.M. on 26 instant.
>
> They mentioned that the Joint Committee of the joint stock and cooperative sectors of industry met in the morning of that day and considered various problems. According to their latest estimate, the production this year would be around 43 lakh tonnes as against the previous estimate of 45 lakh tonnes.
>
> I had asked on an earlier occasion as to how they expected the Government to export as much as 8 to 10 lakh tonnes of sugar as they suggested, if as has been the practice hitherto, sugar for exports is to be found entirely from the levy quota. They had promised to consider the matter further and let me know in due course. At the present meeting, they stated that the Committee had decided to offer to the Government sugar for export from their free sale quota upto 30% of the total quantity to be exported subject to a ceiling of 2 lakh tonnes, at a fixed price of Rs. 290 per quintal ex-factory. They stated that their average realisation from the disposal of free sugar this year was expected to be above Rs. 300 per quintal and the reduction involved in their offer should be judged in this context and also taking into account the higher cane price they have been paying in this season. They made it clear that there was no scope for any further negotiation in this price as they have quoted the rock bottom price.
>
> I mentioned to them that the Government would keep this offer in view in case it became necessary to take sugar for exports from their free-sale quota."

1.56. The Department also furnished, at the Committee's instance, a copy of the communication dated 28 March, 1974 from the Indian Sugar Mills Association and the National Federation of Cooperative Sugar Factories Ltd., offering sugar at a price of Rs. 290 per quintal exclusive of excise duty out of the free sale quota to the extent of 30 per cent of the total sugar exports during 1974, which is reproduced in Appendix II. The Committee found from this letter that the offer of Rs. 290 per quintal was subject to the condition that the existing proportion of levy sugar and free sale sugar would be continued at 70 : 30 and that a suggestion had been made by the Joint Secretary (Sugar) that if need be, sugar for exports may be procured in the proportion of 70 per cent levy sugar and 30 per cent free sale sugar.

1.57. The Committee, therefore, asked whether it was prudent to have disclosed to the industry, in these exploratory discussions, Goernment's intention to export free sale sugar without having any firm indication of the actual production and in the absence of any definite decisions about the extent of export of free sale sugar. The Secretary, Department of Food replied in evidence :

> "The quantities were never revealed to them. The fact that we had to export as much sugar as possible was well-known, and we could not even for any practical purposes, without exploring the possibilities, finally come to any conclusion.
>
> What I am trying to submit is that the fact that we had to maximise our exports and earn as much foreign exchange as possible was well-known. It is the quantity which was the secret part of it. The quantity was not revealed to them. Certainly we did have exploratory talks with the industry so that we may know whether and how we will be able to deliver the goods."

1.58. Drawing attention in this connection to the condition laid down by the industry that the existing proportion (70 : 30) of levy sugar and free sale sugar would be continued, which implied that the industry was expecting a *quid pro quo* for their cooperation to maintain the total quantum of exports, the Committee pointed out that this appeared to indicate that though the exact quantity to be exported might not have been known, the industry certainly was very much in the picture. The Secretary, Department of Food stated :

> "The point is this. The sugar industry is fully aware of the picture. In other words, how much is going to be the production, what is the stock and what is the carry-over stock, what is the consumption in the country and how much it will be possible for us to export—all these they know. We are not dealing with a body which is an ignoramus, which is innocent or which is ignorant of the facts. They have a broad picture of it. So perhaps to say that they are ignorant and do not know is not correct."

He added :

> "But at the same time, one has to be careful that they do not take advantage of it. I concede that. But the point is that unless we have an exploratory talk, how can we know the real position ? You will appreciate that the final decision had to be taken quickly because if you were going to sell in the international market and if you did not start your negotiations well in advance, it would take a long time and one might miss the bus."

1.59. Asked whether the Committee would be wrong in concluding that these exploratory discussions had placed Government at a disadvantage and had given rise to avoidable speculation, the witness replied :

> "Kindly look at the price prevailing in the months of March to June 1974. There was no price rise during this period. Therefore, the inference being drawn, you will agree, is not correct."

He added :

> "So far as the price of levy sugar is concerned, it is fixed by the Government and is applicable throughout the year. They cannot manipulate the price. Levy free sugar is sold in the market and certainly they can play with it. It is in that area where the price can be played with by the industry and they can take undue advantage. If you look at the price obtaining in the months of March to June 1974, you will notice that there is steadiness in the market and the industry was not in a position to take advantage and had not been able to take advantage. I can say at that point of time there was hardly any variation in the market."

To another question whether the witness was positive that the exploratory talks had no impact on the industry which was known to manipulate things to their own advantage, he replied :

> "If I knew all the methods of their working, I will be evolving counter methods all the time. I could only submit in answer to your observation that there was the possibility of these people taking advantage of that but you would have noticed these were only exploratory talks. We did not commit that we will buy. Further . . . it was only in late July that the prices had started showing up. The actual deal when it was finalised naturally affected the market. Then . . . one has to bear in mind that this is also the lean period and the marriage season was also on."

Elaborating on this issue further, the Department of Food, in a note furnished subsequently, have stated :

> "Two statements showing (i) the wholesale prices of open market sugar in five important markets, *viz.*, Delhi, Kanpur, Calcutta, Bombay and Madras from October 1973 to September 1974 and (ii) the price range in these markets during the period March—June 1974 are enlcosed. (Reproduced in Appendix III). It would be observed from the price range obtaining in these important markets that the price fluctuations were within narrow limits during the period from March to June 1974. Therefore, it cannot be said that the industry took undue advantage of the discussion held on the 26 March, 1974 and the prices of wholesale sugar were deliberately manipulated by it. It was only from July 1974 onwards, *i.e.*, after the fall in production during 1973-74 season became known and the availability of khandsari sugar was also meagre that the prices started going up."

1.60. Since it had been stated that the representatives of the industry normally met the officers of the Department off and on to discuss problems facing the industry, the Committee desired to know how many such meetings were held in 1973, 1974 and 1975, the issues discussed and the decisions conclusions arrived at. The Committee also called for copies of the minutes record of discussions of these meetings. In a note, the Department informed the Committee as follows :

> "It is customary for the representatives of the industry in all the sectors—Cooperative, Public and Joint Stock—to meet the Ministers and Senior Officers in the Department of Food periodically when

views would be exchanged on many facets relating to the sugar industry. Such meetings facilitate the obtaining of the needed co-operation from the industry for implementing Government's policies and programmes. Record notes/minutes are normally kept when important matters, mostly involving policy aspects, are discussed. These record notes/minutes are kept on the relevant files of different sections. In the short time available, an attempt has been made to collect some of the record notes of discussions which could be readily recalled."

The Department added that apart from the meetings held on 26 March 1974, 15 July 1974 and 5 August 1974 (all of which related to exports of sugar during 1974 and which have been discussed in detail separately), a formal meeting was held on 17 January 1973. From a perusal of copy of the minutes of this meeting furnished by the Department, the Committee found that at this meeting the question of losses on exports, acceptance of cheques by mills, steps to be taken for the prompt indenting of wagons, etc. had been considered.

1.61. The Committee desired to know why the initial offer of Rs. 290 per quintal made by the industry was not accepted. The Secretary, Department of Food stated in evidence :

"This was an exploratory talk and there was no question of our inviting the tender. This offer was referred to the Finance Ministry. They approved of it. It was sent to S.T.C. They had taken charge of looking after sugar export. At that time the industry went back on this offer and they sent us a letter that they would not bind themselves to the offer of Rs. 290."

He added :

"It was an exploratory talk which took place when the industry members called on the officers of the Department of Food. An offer was made by them. It was neither accepted nor rejected; it was noted down. That is where the matter stood. We were not in a position either to accept it or reject it. The clearance from the Finance Ministry had not come. The exploratory talk was necessary because we were taking this decision for the first time to augment our export. That was the reason for it."

Clarifying the position further, the witness stated :

"While the Finance Ministry gave their approval, they asked us to negotiate with the industry and try to see if the offer of Rs. 290 could be brought down still further. Therefore, at this stage we called for the Industry and negotiated. But on 15 of July when they met us, they resiled. We had to take a decision to ask the STC in consultation with the Finance that they may invite tenders."

Tracing the subsequent course of events, the witness added :

"We got in touch with the industry as desired; they told us that this price was no longer acceptable and we reported it to Finance. They also said that STC should invite tenders. There was then the meeting of the Special Committee on 24 July 1974 at which the STC

requested the Food Department to renegotiate with the industry. They also asked us to use our good offices which we did. The price of Rs. 325 was offered on 6 August and this was again referred to Finance. Finally on 21 of August, Finance advised that STC should invite tenders and this information was passed on to STC the next day."

He added :

"Their (the Finance Ministry) judgment was that it might be possible to have a lower price. Unfortunately that did not come about. The situation had changed completely. There were certain expectations which did not materialise."

1.62. In this context, the representative of the Ministry of Finance stated :

"The whole point is, I must emphasise, that when the Cabinet's approval was taken for the export of 4 lakh tonnes of sugar, it was emphasised that it was on the basis of a forecast of 45.0 lakh tonnes of sugar during that year and it was also stated that the position would be reviewed when a more realistic picture of the sugar production was available. When the matter was first referred to us in March, the question was not exactly whether a quantity of two lakh tonnes of sugar should be exported or not. The question was whether it should be exported from the levy quota or the non-levy quota. If the export was based on the non-levy quota instead of from the levy quota, the exchequer would have lost a sum of Rs. 22.0 crores which we could not afford at that time in view of the huge deficit financing we had to resort to. So we advised that whatever expert should be made from the levy quota. However, we also noted that the earlier forecast of production of 45 lakh tonnes was not proving to be correct and therefore we suggested that a decision whether any export should be made from the levy free quota should be taken when the picture was more correctly available. That was in the month of May. That covered our first reaction. It was not the question if the price of Rs. 290 quoted was reasonable or not. It was a question whether to export by purchasing levy sugar at Rs. 161.0 per quintal or whether we should purchase it at Rs. 290.0 and export that. When the matter was again discussed we found that production figure was round about 39.0 lakh tonnes instead of 43.63 lakh tonnes which was reported to the Cabinet. So, we found that it would not be possible to divert additional quantity of 2 lakh tonnes or so from the levy quota and therefore we agreed that one lakh tonne of sugar from the levy free quota might be exported. As to the price, we checked up and we found that Rs. 290.0 would be reasonable and we advised the Food Ministry that they could negotiate with the industry to get one lakh tonne of levy free sugar at Rs. 290.0 or as much less as possible."

He added :

"At the same time we told the Ministry of Food that the STC should be informed immediately of this decision so that, since the STC had to enter into a contractual obligation in advance, they could go ahead with the export of the additional one lakh tonnes of levy free

sugar. Actually, after that, the industry did not cooperate and did not keep up to their earlier promise of supply at Rs. 290.0 per quintal. On the other hand they advised—I shall read out their letter :

> 'We shall respectfully suggest to the Government that sugar for export from the free quota should be purchased on a tender basis. We believe that by adopting this procedure, the Government will have no difficulty in getting their requirements from the free quota and that even the price may not be very much different from Rs. 290.0 because many factories in the region will be too willing to deliver sugar in the interest of its exports'.

Actually, at that time, the price prevailing in the Southern region was below the figure of Rs. 325/- which the sugar industry had demanded and so, it was suggested that the STC could go in for tender."

Asked how the Finance Ministry came to the conclusion that it would be possible to obtain lower prices than Rs. 290 per quintal, the witness replied :

> "We got this impression from the price trends at that time."

To another question as to when this decision was communicated to the Department of Food, the witness replied :

> "The decision was taken on 1 July and communicated to the Department of Food accordingly."

1.63. The Committee enquired into the reasons cited by the industry for resiling from their earlier offer of Rs. 290 per quintal. In reply, the Department of Food furnished copies of the minutes of the meeting held with the representatives of the industry on 15 July 1974 and of the letter dated 19 July 1974 subsequently received from the Indian Sugar Mills Association and the National Federation of Cooperative Sugar Factories Ltd., indicating the reasons for not agreeing to the Department's request for supply of free sale sugar at the rate offered earlier, which are reproduced in Appendix IV. In brief, the main reason cited by the industry for withdrawing its offer was that the levy prices originally fixed in December 1973 had not been revised by Government although the industry had paid a very high price for sugarcane and suffered losses on account of lower recovery and high cost of production and slump in the market during April—June 1974 due to large arrival of khandsari sugar and other factors.

1.64. The Audit paragraph points out that the Ministry of Finance got the reasonableness of the price of Rs. 290 per quintal checked by the Chief Economic Adviser who certified that the price demanded by the industry was reasonable. Asked on what basis the reasonableness of this price was worked out, a representative of the Chief Economic Adviser replied in evidence :

> "This is done on the basis of total cost of the industry and what is considered to be a reasonable profit or rate of return on that basis. What is done is to take into account the total cost of production on the basis of price of cane ruling in the market. Then, to that, you

add the cost of conversion and packing. To the total you arrive at, you add a rate of return which has been determined by the Tariff Commission at Rs. 12.60 per quintal. This gave you at that time an average price of Rs. 200 per quintal for the industry as a whole. What we then did was to calculate what the industry would realise on the basis of a 70 per cent sale of levy sugar and 30 per cent sale of non-levy sugar. This, during that year, gave a figure of Rs. 202 per quintal. Therefore, we concluded that the industry was not making a return which was significantly different from the return recomended by the Tariff Commission and, therefore, it was decided that it was a reasonable price to pay to the sugar industry for that particular quantity of sugar which was to be exported. It was reasonable because it did not give them a rate of return very much different from what the Tariff Commission had recommended as an adequate rate of return for sale."

1.65. After the industry had withdrawn its earlier offer on 15 July 1974, negotiations were once again held on 5 August 1974 by the Department of Food when both the Indian Sugar Mills Association and National Federation of Cooperative Sugar Factories Ltd. offered 1 lakh tonnes of free sale sugar at Rs. 325 per quintal (excluding excise duty) which was referred, on 6 August 1974, to the Ministry of Finance for acceptance. A copy of the recorded note of discussions of the 5 August 1974 furnished, at the Committee's instance, by the Department of Food is reproduced in Appendix V. The Ministry of Finance had, however, suggested on 21 August 1974 that the State Trading Corporation should be asked to purchase one lakh tonnes of sugar by inviting tenders and it appears from the Ministry's reply (December 1975) to Audit (referred to in the Audit paragraph) that the industry's representative had mentioned during negotiations that if the Department of Food went for tender the price offered was likely to be lower. The Committee also learnt from Audit that the Ministry of Finance had further stated that "the normal procedure for purchase in Government is by invitation of open tenders and a straight offer by the industry would also have rendered Government open to criticism."

1.66. Explaining, during evidence, the background to the August 1974 decision to invite tenders for the purchase of 1 lakh tonnes of sugar from the free sale quota, the representative of the Finance Ministry stated :

"The difficulty in regard to the purchase of levy free sugar was that in the past, the levy free sugar had never been purchased for the purpose of export. We were faced with a situation in which the price that was offered by the industry, namely, Rs. 325 per quintal was lower than the price of sugar in Delhi and Bombay but higher than the price of sugar in the regions of Madras and other places in South India. So, we thought, if we invite tenders, we might be able to get the advantage of lower price in the region of South India.

Secondly, the industry itself had advised the Government that while it may not be able to persuade all their members to supply to Government at a reasonable price of Rs. 290 per quintal, the Government should go in for tenders and they expected that if the Government went for tenders, the Government may get a lower price near about Rs. 290 per quintal."

1.67. The chronological sequence of events leading to the decision of 21 August 1974 indicated, at the Committee's instance, by the Department of Food, is discussed below :

"In January 1974, the production of sugar was estimated to be about 45 lakh tonnes on the basis of this estimate, the Cabinet decided, on 27 February 1974, on a target of 4 lakh tonnes of sugar for immediate export and it was indicated that the aim should be to export 7 lakh tonnes in all, including one lakh tonnes to U.K. and U.S.A. With this aim in view, the Food Department on 5-3-1974 proposed the export of 2 lakh tonnes of free-sale and 5 lakh tonnes of levy sugar and referred the matter to Ministry of Finance for approval. While this proposal was under consideration of the Ministry of Finance, the industry offered upto a maximum of 2 lakh tonnes of free-sale sugar for export at Rs. 290 per quintal (D-29) on 26 March 1974. On 28 April 1974, the Ministry of Finance stated that the Central Exchequer will have to forgo a sum of not less than Rs. 22 crores, and probably more, if the proposal is accepted, being the difference between the levy price of sugar payable to the sugar mills and the price that will have to be paid to the mills if 2 lakh tonnes have to come out of levy-free sugar. But since the trend of production had not been as was anticipated earlier, the Ministry of Finance stated that the proposal would have to be reconsidered. It was, therefore, suggested by them that the proposal might be reviewed and referred back to them by the end of May when the position about production would be clearer.

Consequently, the matter was referred to the Ministry of Finance on 24 May 1974. The production was then estimated to be not more than 41 lakh tonnes for the year 1973-74. In view of the much lower total output, the Ministry of Finance approved, on 1-7-1974, export of 4 lakh tonnes out of levy sugar and one lakh tonnes out of free sale and considered the offer of Rs. 290 per quintal as reasonable but suggested negotiations with the industry by the Food Department to get as low a price as possible. It was also stated by them that permission to export one lakh tonnes out of free-sale should be given without waiting for the four lakh tonnes levy quota to be fulfilled since the STC had to make advance arrangements for export.

Accordingly, negotiations were held on 15-7-1974, with the industry for the purchase of one lakh tonnes of free-sale sugar. Even the price of Rs. 290 earlier offered by the industry in March 1974 was, no longer acceptable to them. The industry suggested that since the work of sugar export was being handled by the STC, the procurement work in respect of export of sugar out of free-sale may also be entrusted to the STC who may negotiate with the industry or invite tenders and secure the required quantity for export. Finally they stated that they would consult their members further in the matter and communicate their decision shortly. On 19 July 1974 the industry (ISMA and NFCSF) communicated to the Food Department that it would be difficult for them (both the ISMA and the NFCSF) to persuade all their member factories to deliver free sale sugar at a fixed price of Rs. 290 per quintal and suggested that sugar for export from the free-sale quota should be purchased on tender basis.

On receipt of the above communication the matter was referred to the Ministry of Finance on 21 July 1974 stating that since the STC had contracted to sell a quantity of 31,000 tonnes of white sugar for export, over and above 3 lakh tonnes of white sugar and 1 lakh tonnes of raw sugar from levy quota advised by the Food Department, they may concur in the proposal for procurement by STC of free-sale sugar from the factories by inviting tenders. It was also suggested that if necessary this matter might be discussed in the meeting of the Special Committee on Sugar Exports fixed for 24 July in Food Secretary's room. The Ministry of Finance agreed to this suggestion.

Accordingly, the matter was discussed on 24 July 1974 in the meeting of the Special Committee on Sugar Exports and it was decided therein that the Food Department should make one more attempt to get the one lakh tonnes of free-sale sugar for export at an agreed price from the industry. (By this time STC had sold a further 32,000 tonnes of white sugar, thus bringing the excess-sale to 63,000 tonnes).

A meeting was, therefore, arranged with the industry on 5 August 1974. The industry quoted a price of Rs. 325 per quintal. They were pressed to offer a lower price, but they did not agree to it. The Department of Food suggested to the Ministry of Finance, on 6 August 1974, that the price of Rs. 325 per quintal offered by the industry might be accepted. After due considering of the pros and cons of the matter, the Ministry of Finance advised on 21 August 1974 that the levy free sugar of one lakh tonnes should be procured by the STC by inviting tenders and that the STC may be advised by the Food Department suitably.

Accordingly, the STC was advised on 22 August 1974 to procure one lakh tonnes of levy-free sugar out of the 1973-74 season's production of inviting tenders."

1.68 Asked, in this context, the outcome of the efforts made, in pursuance of this decision, to tap markets in the South, the Chairman of the State Trading Corporation replied :

"We did float a tender on the 12 September, which was an all India tender, for the supply of free sugar and we got only four offers one was from Tamil Nadu, one from Maharashtra, one from Karnataka and one from Kanpur. The total quantity offered to us was only 2500 tonnes and the price was Rs. 5,000 in one case, in another case Rs. 4,750 and in two cases Rs. 4,650. Of course, if we exclude the excise duty from this which would have brought the prices somewhere around Rs. 350 to Rs. 390 per quintal. These were the only offers received at that time and that was why the idea of tenders was subsequently dropped."

In a note furnished subsequently in this regard, the Ministry of Commerce/ State Trading Corporation have stated :

"A tender for procurement of free sale white sugar was issued on 12-9-1974 to 242 sugar mills all over India, for offers for supply of C-30 and D-30 grades of sugar to be sent to the STC by 23-9-1974.

As on 23-9-1974, no firm offer was received by STC. However, replies were received from some 27 factories :19 regarding their inability to make any offer due to insufficient stocks or other reasons, 5 indicated that they had authorised Maharashtra Rajya Sahkari Shakar Karkhana Sangh Ltd. to negotiate on their behalf and 3 sought clarification of tender terms.

On 24-9-1974, further 8 replies were received including two firm offers as follows :

(a) 1000 MT of D-30 grade sugar at Rs. 500/- per quintal from the Amarvathi Coöperative Sugar Mills Ltd., Tamil Nadu for delivery at Madras port only;

(b) unspecified quantity of C-30 grade sugar at Rs. 475/- per quintal from Shri Someshwar Sahakari Shakar Karkhana Ltd., Maharashtra for delivery at Bombay.

This clearly demonstrated that the results of the tender were disappointing."

The State Trading Corporation also furnished a copy of the note dated 27th September, 1974 submitted in this connection to the Board of Directors of the Corporation, which is reproduced in Appendix VI.

1.69 According to the Audit paragraph, before calling for tenders in pursuance of the Finance Ministry's decision of 21 August, 1974, the State Trading Corporation had also conducted negotiations with the industry on 4 September, 1974, when the latter offered about 1.10 lakh tonnes at Rs. 340 per quintal. The Committee, therefore, desired to know the necessity for these negotiations and their outcome. In a note, the Ministry of Commerce/State Trading Corporation stated :

"A letter dated 22-8-1974 was received from Department of Food which referred to the decision of the Special Committee on Sugar Export asking the Department of Food to make another effort to negotiate with the industry for procurement of sugar at a negotiated price, failing which STC should make arrangements for procuring this quantity by inviting tenders. The Food Department's negotiations had not brought forth an agreed basis of supplies. This was the first time that STC was required to procure large quantities of free sale sugar. Accordingly, STC decided that before taking a view whether to issue a tender or negotiate an agreement with the industry for fulfilling export commitments, a preliminary meeting be held with the industry. This meeting was intended to help STC to familiarise itself with industry's set up and its spokesmen with whom the Corporation would have to deal and also to get a feel of the market conditions.

A preliminary meeting was held on 28-8-1974 with the representatives of National Federation of Cooperative Sugar Factories Ltd., and Maharashtra Rajya Sahkari Shakar Karkhana Sangh Ltd. They pointed out that no agreement on behalf of the industry as a whole could be reached until Government had announced the minimum cane price and the levy sugar price for the new season. Having regard to the foregoing developments a view was taken that inviting

tenders at that time was unlikely to be conducive to securing at reasonable prices the quantity of sugar to be exported. This judgement of STC turned out to be correct as found subsequently by the response to the tender issued by STC.

As a result of discussions held on 3 and 4 September 1974 with the President of the Indian Sugar Mills Association (ISMA) and the Vice President (ISMA) as well as with the President of the Indian Sugar Industry Export Corporation, the President of the ISMA on behalf of the industry made an offer for about 1.10 lakh MT of sugar at Rs. 340/- per quintal for D-30 grade—60% of the supplies to be made available by ISMA members and 40% by the cooperative sector. On 11 September 1974, however, a special meeting of Directors of the STC Board considered the above situation and decided that in view of the uncertain market conditions, it would be more prudent ot make purchases through tender; a suggestion was also made that in the meantime efforts should continue to get more levy sugar out of current crop, so that purchase of free sugar could be postponed to a later date."

1.70 After the efforts to obtain lower prices by floating a tender on 12 September 1974 had failed, negotiations were again conducted with the industry by the State Trading Corporation on 18 October 1974, when the former agreed to sell only about 80,000 tonnes of free sale sugar at the rate of Rs. 340 per quintal, which was accepted by the Corporation and a quantity of 90,349 tonnes were supplied at this rate. Subsequently, to meet the export commitments entered into by the State Trading Corporation, a further quantity of 0.17 lakh tonnes was procured at Rs. 360 per quintal. The Committee learnt from Audit that the Ministry of Commerce had stated (December 1975) in this connection as follows :

"Against the above commitment, the actual quantity supplied by the Industry amounted to 90,349 tonnes. The balance quantity of 16,630 tonnes had, therefore to be procured in December 1974 when the price finalised with the Industry was Rs. 360/- per quintal. This was the tariff value declared by the Government for the month of December 1974."

The Committee were further informed by Audit that the Department of Food had, in December 1975, stated :

"On further negotiations, the industry offered on 24-7-1974 to make available one lakh tonnes of free sale sugar at Rs. 325 per quintal. At that time, the free sale prices of sugar were varying from Rs. 302—336 per quintal and the price offered by the industry was thus the mean of the range of free-sale sugar prices and, therefore, did not contain any concession whatsoever. After examining the pros and cons, the Finance Ministry suggested, on 21-8-1974, that one lakh tonnes of levy-free sugar should be procured by the STC by inviting tenders which may give lower prices. However, actually the prices rose further and the STC could finalise the deal only at a price of Rs. 340 per quintal. The decision to procure sugar by inviting tenders was calculated risk as there was every possibility of getting lower offer also as informally indicated by the industry itself. Further, by tendering, Government might have not the advantage of low

cost zones. Moreover, procurement of sugar by negotiations at a price which was not concessional in any way was also open to objection."

1.71. The Committee enquired into the details of the negotiations held with the industry on 18 October 1974. In a note the Ministry of Commerce/State Trading Corporation replied :

"At the meeting held on 18-10-1974 the representatives of the industry—both the Indian Sugar Mills Association and the National Federation of Cooperative Sugar Factories—had stressed the low level of availability and had indicated that they could make a firm commitment for only 80,000 MT of C-30 and/or D-30 grades of sugar. Further, in the context of the shortage of sugar in the country and instability in the market the best price offered was Rs. 365/- per quintal ex-factory.

After prolonged discussions the industry finally agreed to the price of Rs. 340/- per quintal offered by them in September 1974; but for both 'C' & 'D' grades instead of only 'D' grade as initially offered, and while making a firm offer for supply of only 80,000 MT gave the assurance that the position with the different sugar factories in the country would be re-checked and the maximum possible quantity would be made available."

A copy of the note prepared immediately after the meeting and submitted on 19 October 1974 to the Board of Directors of the State Trading Corporation was also furnished by the Ministry, which is reproduced in Appendix VII.

1.72 The Committee were further informed by the Ministry of Commerce/State Trading Corporation that the procurement of the first lot of 5,000 MT of free sale sugar at Rs. 360 per quintal was finalised on 16 December, 1974 and further procurement of free sale sugar at the same price was finalised on 26 December, 1974. Copies of the minutes of the meeting held with the industry on 16 December, 1974 and of the note submitted to the Board of Directors on 27 December, 1974 were also made available to the Committee which are reproduced in Appendix VIII.

1.73 Since the Chief Economic Adviser to Government had considered the price of Rs. 290 per quintal offered in March, 1974 as reasonable, the Committee enquired into the circumstances in which the State Trading Corporation had agreed subsequently to the increased prices of Rs. 340 and Rs. 360 per quintal, which had resulted in an additional payment of Rs. 5.68 crores to the industry. In a note, the Ministry of Commerce/State Trading Corporation replied :

"STC was advised by Department of Food on 22-8-1974 to procure one lakh tonnes of sugar by inviting tenders. The STC had no information that the industry's offer of Rs. 290 per quintal made in March 1974, had been considered as reasonable by the Chief Economic Adviser to Government, as this fact was not communicated to STC by the Department of Food.

The basis on which STC decided to purchase the first lot of one lakh tonnes of levy free sugar in October 1974 at Rs. 340 per quintal are indicated below :

The whole-sale price of sugar in India which was steady between February and June 1974, started rising in July 1974 and the rise was maintained through August/September 1974 as reflected by the monthly average wholesale market ex-factory price during the period February to October 1974 indicated below :

Month	Wholesale market price (ex-factory) per quintal excluding excise duty, transport charges and wholeseller's commission.	
	Bombay	Delh
	Rs.	Rs.
January	294	315
February	291	295
March	294	307
April	292	391
May	285	300
June	294	296
July	325	311
August	364	367
September	460	455
October	354	365

The rising market trend, therefore, ruled out the possibility of procurement at the price of Rs. 290/- per quintal indicated to the Department of Food in March 1974. When the STC entered the market by a tender on 12-9-1974, no firm offers were received within the specified time limit. During subsequent negotiations with the industry, the best price offered by the industry was Rs. 340/- per quintal. This price was considered to be in line with the prevailing market level and the procurement was finalised with the prior approval of the Sugar Committee. It may be mentioned that at the time of procurement of this quantity, the tariff value* of levy free sugar had been revised by the Government from Rs. 305 per quintal in September 1974 to Rs. 320 per quintal in October 1974.

Immediately after finalisation of the negotiations with the Industry details of the transactions were reported to the Ministries of Commerce, Agriculture and Finance.

Similarly, the purchase of the first lot of 5,000 tonnes at Rs. 360 per quintal was finalised in December 1974, the offer being the best possible obtainable and being in line with the tariff value in December 1974. The deal was finalised with the prior authorisation of the STC's Board of Directors. For additional quantities required immediately thereafter the industry was paid the same price, i.e., at Rs. 360 per quintal—of which about 75,000 tonnes was procured with the

*The Committee found in this contest that in March 1974, August 1974 and September 1974, the tariff values for free sale sugar declared by Govt. were respectively Rs. 270 (w.e.f. 1 January 1974), Rs. 290 (w.e.f. 1 August 1974) and Rs. 305 (w.e.f. 1 September 1974) per quintal. The tariff value after being increased to Rs. 560 per quintal w.e.f. 30 November 1974, had been subsequently reduced to Rs. 345 in February, 1975, Rs. 330 in March, 1975 and Rs. 310 in April, 1975.

prior approval of the STC's Board and procurement of balance quantity of about 1,09,000 tonnes was accorded post-facto approval."

1.74. The Committee found from various documents made available to them that when efforts to persuade the industry to supply free sale sugar at the originally (March 1974) quoted price of Rs. 290 per quintal had failed, it had been decided, *inter alia*, to try and take advantage of the prices prevailing in the low cost southern zone and the State Trading Corporation had, therefore, been advised to secure buyers for E-30 grade sugar as this quality alone would be mostly available from factories in the south. The Committee, therefore, desired to know the quality of the sugar in respect of which the prices of Rs. 340 and Rs. 360 per quintal were quoted. In a note, the Department of Food/State Trading Corporation stated :

> "Price of Rs. 340/- per quintal had initially been quoted by the industry for 'D-30' sugar but ultimately they agreed that this price would also apply to 'C-30' sugar. As regards purchases at Rs. 360 per quintal, this price has been agreed to when the first lot of 5,000 tonnes of 'E' grade sugar was purchased. Subsequently, the industry was pursuaded to supply 'C-30 and D-30' grade of sugar also at the same price."

Asked to indicate the quantity of different grades actually exported against the purchases made at Rs. 340 and Rs. 360 per quintal, the State Trading Corporation furnished the following information :

Rate of Purchase (Rs. per quintal)	Grades of Sugar exported			
	C-30 (MT)	D-30 (MT)	E-30 (MT)	Total (MT)
340	15,487	74,614	104	90,205
360	21,119	1,56,369	7,250	1,84,737

The Corporation also furnished details of port-wise shipments of free sale sugar purchased, which are tabulated below :

DETAILS OF STC's PURCHASES AND PORTWISE SHIPMENTS OF FREE SALE SUGAR AT RS. 340/- PER QUINTAL AND RS. 360/- PER QUINTAL (IN QUINTALS)

Port-	Rs. 340/- per quintal				Shipments	Rs. 360/- per quintal				Shipments
	Grade-wise purchase					Grade-wise purchases				
	C-30	D-30	E-30	Total		C-30	D-30	E-30	Total	
1. Bombay	114322	384902		499224	497786	70141	482164	15000	567305	566717
2. Kandla	4683	10406		15089	15088	74017	265657	..	339674	319533
3. Vizag	25016	113542	..	138558	138558	45825	361285	..	407110	407014
4. Madras	1069	131919	1938	134026	134026	11200	185778	57500	254478	254478
5. Goa	10458	106135		116593	116590	10000	288805	..	298805	298805
Total:	155548	746904	1038	903490	902048	211183	1583689	725000	1867372	1846549

Asked whether any attempts were made to obtain a reduction in the prices quoted by the industry in respect of lower grades of sugar purchased, the State Trading Corporation, in a note replied :

> "As stated above the price of Rs. 360/- was for all grades i.e. C, D & E while the price of Rs. 340/- was for grades C & D. However, against Rs. 340/- purchase a small quantity of 104 tonnes of E grade sugar was also offered. As the quantity involved was fractional, no price reduction was negotiated with the industry."

To another question whether E-30 sugar was an accepted quality in the export market, the Secretary, Department of Food replied in evidence :

> "Each market has its own preference. The international market prefers D-30 if it can get it but, in this case, because of the period of scarcity, we tried to do whatever was possible. This was an area where I thought that if we could find a market for it, it would be useful to the country. And then, another question was that in the monsoons these were the ports which would lend themselves to easy operation. That was the point which was brought to their notice."

1.75 It would appear from the facts disclosed in the Audit paragraph that purchases of free sale sugar at considerably high prices had to be resorted to on account of the State Trading Corporation having entered into export commitments in excess of the quantities initially authorised. Thus, it would be seen from the sequence of various events [*vide* paragraph 1.67] that while the State Trading Corporation had been advised only on 22 August 1974 to procure 1 lakh tonnes of free sale sugar out of the production in the 1973-74 sugar season, the Corporation had entered into export commitments by 23 July 1974 for a quantity of 0.63 lakh tonnes over and above 3 lakh tonnes of white sugar and 1 lakh tonnes of raw sugar authorised for export out of the levy quota by the Department of Food. This, apparently, had contributed in no small measure to the subsequent developments. The Committee, therefore, desired to know the reasons for the State Trading Corporation entering into commitments in excess of authorised quantities. The Chairman of the State Trading Corporation stated in evidence :

> ". . . .roughly from the 10 April 1974, export marketing of sugar was entrusted to us. At that stage, there were certain contracts which had been entered into by the Department of Food for the sale of sugar to U.K., which was also shipped subsequently. The question of our contracting for export beyond the figure which Government had allocated to us does not arise. In the course of the mornig we had been discussing that there was a plan of India exporting 7 lakh tonnes of sugar. There is a table given in para 27 and you can see from these figures that we were always within our allocations. We might not have been sure, at that stage, whether it will come out of the levy quota, or the levy-free quota, but the over-all quantities were sanctioned and were available.
>
> The other point I would like to make is that when there is demand for sugar and when bids are forthcoming and when it is within the quantities made available to us, it is basically proper that we accept such offers of sale."

He added :

> "....the question of ourselling any sugar which is not made available just does not arise because we depend for our supplies on the allocations made by the Department of Food. I have in front of me a table here which says that the authorised quantity for export in 1974 in the middle of July out of levy and levy-free quota was 5 lakh tonnes. But if we deduct one lakh tonnes which is reserved for sale to the USA and the UK, it brings it down to 4 lakhs. The quantity sold by the Department of Food when the STC took over the business was 44,000 tonnes which leaves a balance of 3.56 lakh tonnes of sugar of which upto the 16 of July we had only contracted 2.64 lakh tonnes and then we stopped at that stage for a little while."

1.76 The Audit paragraph, however, points out that in the meeting of the Special Committee on Sugar headed by the Secretary of the Department of Food, held on 24 July 1974, the representative of the Department of Food had pointed out that "the Department of Food had not informed the STC of the additional provision of 1.00 lakh tonnes for export out of free sale quotas." A copy of the minutes of this meeting furnished, at the Committee's instance, by the Department of Food is reproduced in Appendix IX. Relevant extracts* therefrom relating to this question are reproduced below:

> "The progress of sales of sugar for export as reviewed in the note circulated at the meeting along with the letter dated 18-7-1974 of STC, was discussed. This showed that STC had sold about 31,000 tonnes of white sugar over and above the 3.00 lakh tonnes out of levy earmarked for the purpose, including 44,000 tonnes sold by Government before STC took over the work. Shri.... informed the meeting that since their letter dated 18-7-1974, STC had sold a further 32,000 tonnes of white sugar, which brings the excess sales to 63,000 tonnes. Shri ..... stated that they made these sales in view of the further 1.00 lakh tonnes out of free sale quotas to be made available for export. Shri ..... pointed out that the Department of Food had not informed the STC of the additional provision of 1.00 lakh tonnes for export out of free sale quotas, and arrangements for its procurement had not been finalised yet, and in the absence of any such information STC should not have effected excess sale without obtaining the specific concurrence of the Department of Food. The Food Secretary agreed with this and added that while the Food Department would help to fulfill the commitment already made by the STC, he advised the STC not to make further sales without the prior concurrence of the Department of Food."

1.77 Since this appeared to contradict the stand taken by the Chairman of the State Trading Corporation, the Committee desired to know the correct factual position in this regard. The Secretary, Department of Food, stated in evidence :

> "The point is that Mr. .... was informed by his office that the allocation available was 5 lakh tonnes. I think the mistake happened there. The allocation available was only 4 lakh tonnes. One

*Not vetted in Audit.

lakh tonnes was still to be authorised. That is where the mistake took place. We really wanted to caution the STC became untill such time that we had the sanction, we did not want any commitment to be made and the STC rightly agreed at that point of time and when this meeting was adjourned, the approval of the Finance had come and they had agreed to do so. That is why I gave the assurance that so far as the present commitments are concerned, we would try to honour them."

However, the Chairman of the State Trading Corporation maintained :

"There is no confusion about 1 lakh tonnes of free sale quota. I read out the figures of 5 lakh tonnes. If we had 4 lakh tonnes available, as I mentioned before, the quantity, based on 4 lakh tonnes total supply, would be 2.56 lakhs, leaving 1 lakh aside for U.K. and U.S.A. and 44,000 sold by the Department of Food. The difference is only of 8,000 tonnes which could be accounted for by shipping and chartering latitude."

He added :

"We, first of all, get the overall allocations. Then the Department of Food decides what proportion could be made available out of the levy quota and what proportion could be made available out of the free quota. Therefore, the figure at this stage was 4 lakh levy quota and 1 lakh free quota—total 5 lakhs. For the time being if we put aside 1 lakh free quota, we have 4 lakh tonnes, which leaves 2.56 lakhs with us. We had sold 2.64 lakh tonnes.

If we have contract for 10,000 tonnes, sometimes we load 9,000 and sometimes 11,000 tonnes depending on a number of factors. Thus, there can be a minor variation as compared to allocated or contracted quantity. At that time the difference was 8,000 tonnes.

Subsequently, we sold another 55,000 tonnes. That is correct and, therefore, it makes the figure of 63,000 tonnes. We were going to make this up out of 1 lakh tonnes quota which was to be given to us later in the year."

The witness informed the Committee further that till 1 July 1974, contracts had been concluded only for 14 lakh tonnes. Asked to indicate details of the contract entered into subsequently, the witness replied :

"By 16 of July, as put in paragraph 27, the quantity available was 2,56,000 tonnes. The quantity contracted for sale was 2.64 lakh tonnes which shows that the difference was only 8,000 tonnes. We had sold further 55,000 tonnes subsequently. Against the clearance in principle from the Ministry of Finance on the 1st of July, one lakh tonnes of free market sugar could be purchased."

1.78. The Committee, therefore, desired to know whether on 1st July 1974, Government had taken a final decision to make available 1 lakh tonnes of free sale sugar to the State Trading Corporation for exports. The Secretary, Department of Food stated :

"We got clearance from the Finance on the 1st of July for 1 lakh tonnes of free sugar to be exported and for making it available for the purpose."

1.79. On the Committee drawing attention to the statement of the representative of the Department of Food at the meeting of the Special Committee on Sugar held on 24th July, 1974 that the Department had not informed the State Trading Corporation that 1 lakh tonnes would be made available from the free sale quota and that in the absence of any such information the Corporation should not have effected excess sales without obtaining the specific concurrence of that Department and enquiring how the State Trading Corporation could justify the sales effected between 1st July and 23rd July,1974, the Chairman of the Corporation replied :

> "It is stated in the same minutes, that is, just before the portion you have read out just now, that—
>
> > 'Shri. . stated that they made these sales in view of the further 1.00 lakh tonnes out of free sale quotas to be made available for export'.
>
> This was the information available at that time. The information was that at that time one lakh tonnes would come to us. I have mentioned this before and I would repeat it again.

Asked how this information was obtained by the Corporation and when this was communicated to them, the witness replied :

> "As I told you, to start with, we were not making sales unless quantity allocations in principle had been agreed upon. During this period, there was also a meeting which took place between the Ministers of Commerce and Agriculture when this additional quantity was cleared. We proceeded on this information and the assurance that five lakh tonnes of sugar in all would be made available."

Clarifying the position further, the Secretary, Ministry of Foreign Trade stated :

> "It is a fact that when STC entered into the sale contract, it did not have a written authority from the Department of Food. To that extent, I plainly admit that STC did not act on any written authority. I would submit that the circumstance in which the STC made these commitments should be carefully borne in mind. The request of the Ministry of Commerce for an additional two lakh tonnes was under consideration of the Ministry of Finance and these negotiations were going on between the Food Department and the Ministry of Finance. Finally, it was clear when the Ministers of Commerce and Agriculture met in June that at least one lakh tonnes would be agreed upon and the STC was fully in the picture, as far as information or knowledge of this discussion was concerned. So, STC knew all the time as a result of close contact with the Department of Food, Ministry of Commerce that at least one lakh tonnes as against two lakh tonnes which they had asked for were going to be released for their sale. Of course, you may say that STC should have waited till written communication was sent by the Department of Food, however, studying the market trend at that time and finding that STC had to enter the market in a big way, STC, in its commercial wisdom, thought that they should start making commitments in anticipation of this release of one lakh tonnes. These are the plain facts of the

case. My analysis is that STC acted in very good faith and did its best to get the maximum unit value. It is a fact that the release order by the Department of Food took a little longer than what the STC expected. But ultimately STC went ahead in the hope that this quantity would come and when they were told that they should not go further, they also stopped."

1.80. The Department of Food also furnished, of the Committee's instance, copies of the letter dated 18th July, 1974 from the State Trading Corporation, referred to in the minutes of the meeting of the Special Committee held on 24th July, 1975, and of the letter dated 22nd August, 1974 from the Department to the Corporation authorising the invitation of tenders for the procurement of 1 lakh tonnes free sale sugar, which are reproduced in Appendix X.

1.81. Since it had been stated that the decision to export 1 lakh tonnes of free sale sugar had been cleared when the Ministers of Commerce and Agriculture met in June and in so far as knowledge of these discussions was concerned, the State Trading Corporation was fully in the picture, the Committee desired to know (a) when this meeting between the two Ministers was held, (b) whether representatives of the State Trading Corporation were present at this meeting and (c) whether a formal decision that one lakh tonnes of sugar would be released from the free sale quota for exports was communicated after this reported meeting or whether the discussions were only of an exploratory nature. The Committee also enquired, if as stated by the State Trading Corporation, a decision in this regard had been taken by the Ministers concerned, why no formal communication to this effect was sent by the Department of Food to the Corporation before 22nd August, 1974. After protracted correspondence on the subject between the Lok Sabha Secretariat, the Department of Food and the Ministry of Commerce (reproduced in Appendix XI), the latter Ministry informed the Committee, in a note* on 17 September 1976, in this connection as follows :

"The meeting between the two Ministers appears to have been of an informal nature. No formal record of the discussion is available on the files of this Ministry. According to the Department of Food, their files also do not have any record of discussions. However, the then Additional Secretary in this Ministry, Shri..... had recorded a note on 24-6-1974 on the relevant file in this Ministry to the following effect :

'Placed below is the record note of discussions held in Mr.... (Food Secretarys') room. The following points were also made at the meeting.

1. I proposed that we should increase the quantity of sugar for export. Mr.....(Food Secretary) mentioned that at the meeting between the Commerce Minister and the Minister for Agriculture already a decision has been reached to increase the quota for export from 4 lakh tonnes to 5 lakh tonnes and Mr... (Food Secretary) also mentioned to my request for an additional quantity over and above the 5 lakh tonnes that about 50,000 tonnes could also be considered.

x x x x x x

*Not vetted in Audit.

> According to the records in this Ministry the above note was not however sent to the Department of Food. The Department of Food have also informed us that Shri .....(Additional Secretariat in the Commerce Ministry) had not made any mention of this note at the meeting of the Special Committee which he subsequently attended.
>
> No representative of the STC appears to have been present at this meeting."

In another letter dated 30th August, 1976, the Ministry of Commerce also informed the Committee that "the decision to release one lakh tonnes free sale sugar for export had been communicated to the STC informally."

1.82. In view of the fact that no representative of the State Trading Corporation was reported to have been present during the informal meeting between the Ministries, the Committee asked when and by whom his decision had been communicated to the Corporation. In their letter dated 4th October, 1974, the Ministry of Commerce replied :

> "There is no material on record in the files of this Ministry or of the STC to show how the information got conveyed the STC. Obviously, it was not officially communicated to them by the Ministry. The position has also been checked with the officers then dealing with the subject, both in the Ministry and the STC and they also cannot recall at this stage how the information reached the STC. In the absence of any material on the file, it is not possible to indicate categorically as to when and how exactly this information got communicated."

1.83. Considering the fact that Government had to pay Rs. 5.68 crores extra to the industry for the procurement of free sale sugar, the Committee desired to know whether it would not have been a better strategy, even if exports of free sale sugar had been considered necessary, to have confined the exports initially to levy sugar (which, in any case, formed the major share of the quantity to be exported) and then entered the market later for the procurement of free sale sugar after having made a careful assessment of the actual production, internal consumption, etc. and when market conditions were more favourable. The Secretary, Department of Food stated in evidence :

> "The point made is quite valid. But from the records it will appear that the STC had oversold and it came out in our minutes and discussions—we were separately reviewing it in the Special Committee month to month—that by the end of April or May the STC had been able to commit itself and sell most of the allotment that has been made to them and in fact they had exceeded it."

He added :

> "As I mentioned, you will yourself have noticed from these figures that they had been given 4 lakh tonnes as the quota that would be available from the levy sugar. Out of this 1 lakh tonnes was raw sugar which would go to UK and USA. That is specific. What remains is 3 lakh tonnes. The question is : how much more would

be available from the levy free portion. You would have noticed that by May and June they had already made commitments and in fact they had exceeded and we had to advise them against doing so because we were not able to finalise our own arrangements. This was the period when we decided to have our exploratory and preparatory talks because for the first time we were going to sell sugar from the free quota and naturally unless we had made all these preparations, we could not have finalised the arrangements."

Explaining the position further, the witness stated :

"The point was very correct. This was more or less what was done. 4 lakh tonnes of sugar was available from the levy of which 1 lakh tonnes was raw sugar for US and UK markets under international agreement. By the end of May or June STC had more or less committed contract of that order. We in the meanwhile explored the possibility of getting additional quantity from levy-free quota. His point is therefore quite right. This was more or less what we did."

1.84. Asked whether the entire quantity could not have been exported from the levy quota only, the Secretary, Department of Food replied :

"As I said, th maximum available from levy side was 4 lakh tonnes." To another question whether the export of 5 lakh tonnes instead of 4 lakh tonnes would have made a perceptible dent in the availability of levy sugar for internal consumption, the witness replied :

"We could have done that only by cutting the allotment for public distribution system. This, in addition to possible resentment of consumers, would have pushed up price in the market of free sale quota. To the extent the quota becomes less public will have to depend upon normal market. Sugar industry would have taken full advantage of it."

He added :

"It was possible if we could reduce the allotment or the quota which is given to the public distribution system which we did not consider proper to do."

1.85. Referring to the statement made by the witness that any attempt to utilise additional quantities from the levy quota for exports would have resulted in the increase of prices of free sale sugar, the Committee desired to know whether it was not a fact that during 1974-75, in spite of the proportion of levy and free sale sugar being 70 : 30, open market prices of sugar had shot up The Secretary, Department of Food stated :

"It did go up for some months; that is quite correct--beyond Rs. 5 and then the consumer resistance started and we, to the extent we could release more sugar in the market, did so and the prices then started coming down."

1.86. Asked what was the normal monthly release of sugar for internal consumption, the witness replied :

"Normally, if I can give you the rough figure, we take it at about 2 lakh tonnes per month. It may change. Sometimes, it is 2.05 lakh

tonnes, sometimes it is 1.9 lakh tonnes and 1.8 lakh tonnes depending upon whether we are tightening up our belt or if it is a marriage season or festival season it will be more. But, by and large, it is about 2 lakh tonnes which is given through the public distribution system and the levy-free sugar is 90,000 to 80,000 tonnes or 1 lakh, depending on the prices."

1.87. The Committee desired to know whether the feasibility of drawing upon the carry-over stocks available from the previous sugar season for the export effort had been considered. The Secretary, Department of Food, stated :

"Carry-over stock is utilised for the public distribution system. In any case this is taken into account in arriving at the total calculations of availabilities. Similarly we take into account requirements upto the end of September of next year when demands come up again to meet requirements of the public distribution system for the following 2 or 4 months. We cannot take undue risks."

On the Committee pointing out in this connection that while at the beginning of the 1973-74 season, 8.64 lakh tonnes of sugar were available as against the opening stock of 5.99 lakh tonnes at the beginning of the 1972-73 season, internal consumption of sugar had remained almost constant (being respectively 35.11 lakh tonnes and 35.29 lakh tonnes in 1972-73 and 1973-74) and enquiring whether the drawal of 1 lakh tonnes from the carry-over stock would have materially affected the availability of sugar for the public distribution system, the witness replied :

"...generally I may say this. Carry-over stock is intended to serve public distribution requirements. This is for October, November and sometimes in December. If the crushing is delayed this is what is required. We have to have carry-over stock which will meet the requirements of public distribution system. It takes at least 2½ months for sugar produced by factories to become available. Otherwise public distribution system will collapse."

He added :

"We have to depend on the season. If we have a late season, then we would be put to difficulties. It is a question of taking risks. But even in this stock of 8.64 lakh tonnes, a certain quantity was committed for export.... I would like to submit that when we are managing the public distribution system, one would like to avoid risk by having enough stock. It is just to tide over the gap—in case there is delay in the crushing of the sugarcane because of the seasonal variations."

Elaborating further the witness stated :

"If I may submit the carry forward stock is also available to us next year. We are not exporting it in one year. If there is any addition that will be reflected in the export next year. It is not a question of giving it anywhere else or its being consumed otherwise. The question is how much was committed for export, how much was committed for public distribution system and how much we should have in stock to maintain even flow in the next year. So, you will appreciate that there are so many uncertainties which we have to take into account."

1.88. The following statement, furnished at the Committee's instance by the Department of Food, indicates in respect of the period from 1972-73 to 1975-76, details in terms of levy and free sale sugar of stocks carried forward, total availability, internal consumption, exports and stocks carried forward :

(Lakh tonnes)

Particulars	1972-73	1973-74	1974-75	1975-76
1. Opening stocks as on 1 October :				
(1) Levy :				
(i) for internal consumption	3·80	3·94	3·52	5·23
(ii) Exports	0·05	1·40	1·23	0·90
(2) Free :				
(i) for internal consumption	2·07	3·07	3·17	3·70
(ii) Exports	..	—	0·36	2·23
Total :	5·92	8·41	8·28	12·06
			Provisional as on 31-7-1976	
2. Production of sugar	38·73	39·48	47·97	42·36
Levy	27·11	27·64	31·18	27·53
Free	11·62	11·84	16·79	14·83
	38·73	39·48	47·97	42·36
3. Total availability (1 + 2)				
Levy	30·96	32·98	35·93	33·66
Free	13·69	14·91	20·32	20·76
	44·65	47·89	56·25	54·42
4. *Despatches during the season*				
Levy: (1) Internal consumption	24·49	23·91	24·75	21·69
(2) Exports	1·13	4·32	5·05	2·54
Free Sale : (1) Internal consumption	10·62	11·38	9·82	8·27
(2) Exports	Nil	Nil	4·57	6·94
Total	36·24	39·61	44·19	38·94
5. *Closing stocks as on 30 September :*				
Levy : (i) for internal consumption	3·94	3·52	5·23	9·43
(ii) Exports	1·40	1·23	0·90	—
Free Sale : (i) for internal consumption	3·07	3·17	3·70	5·30
(ii) Exports	Nil	0·36	2·23	0·75
Total	8·41	8·28	12·06	15·43

(lakh tonnes)

Particulars	1972-73	1973-74	1974-75	1975-76
6. *Stocksat ports* : (break-up of levy free and levy not possible)	0·23	0·50	0·83	(will be known only later)
Total :	8·64	8·78	12·94	..

The Department also furnished, at the Committee's instance, month-wise details (during the sugar years 1973-74 to 1975-76) of opening (unreleased) balance, production, releases for domestic consumption and exports and closing (unreleased) balance of levy and free sale sugar, which are reproduced in Appendix XII.

1.89. Since it had been stated that out oft the opening stock of 8.64 lakh tonnes at the beginning of the sugar year 1973-74, a certain quantity was committed for export, the Committee desired to know the quantity so earmarked for export and whether any quantity out of the closing stock of 8.78 lakh tonnes at the end of the season had been similarly committed for export during 1974-75. The position in this regard, intimated by the Department of Food, is indicated below :

(In lakh tonnes)

Date	Closing stock	Quantity committed for export
30-9-1973	8·64	1·63
30-9-1974	8·78	2·09

1.90. The Tariff Commission, 1973 had observed, *inter alia,* as follows :

> "As the price of free market sugar is not controlled, stray marginal variations in the prices of materials and services that go to make up the ex-factory cost of sugar can be ignored as they can easily be absorbed by the industry in the price of the free market sugar. What is to be aimed at is to keep the industry under some discipline so that its overall return on all sugar (whether released under levy or sold in the free market) approximates to the return intended. . . . If taking advantage of pressure of demand, free market sugar tends to show a consistent, unjustifiable spurt in prices, corrective action will have to be taken by Government. If the industry cannot be disciplined to keep the price fluctuations of free market sugar within reasonable limits, or if any practical mechanism cannot be evolved by Government to control the price and distribution of such sugar, the solution may lie in a suitable adjustment, from time to time, in the ratio between the levy quota adn the free market quota so that the profits accruing to the industry through free sale sugar do not show any run-away tendency."

The Committee, therefore, desired to know whether, when the industry had resiled from its earlier offer of Rs. 290 per quintal which was considered

reasonable by the Chief Economic Adviser, it would not have been possible for Government to compel the industry to contribute its share towards the country's export efforts by selling sugar at the price originally offered or, in the alternative, adjusted suitably the proportion of levy and free sale quotas and obtained the quantity required for meeting the export commitments out of such an enhanced levy quota rather than succumbing, as it appeared to have happened, helplessly to the dictates of the industry. The Secretary, Department of Food stated in evidence :

> "I do not think we ever thought of using emergency powers at that time. This was the normal arrangement. We were getting 70% according to the Government's policy at that time, of the production or sugar for public distribution system and the extra quantity, if any, was available for exports. The Government was quite aware that if extra sugar was going out or was being exported, it would be out of the levy-free sugar."

He added :

> "If there is any price increase in the free market, the procedure is that we release extra quantity of sugar into the market so that with the abundant supply prices come down. But here was a different situation. Here progressively the supply was becoming less because we wanted to export more sugar. With the shortage in production, the cost also goes up. After all, the total cost is a function of the total production that you have and progressively the unit value goes up. Whether Government should have, in an emergency, thought of taking over the whole quantity is the point which I believe you are raising. Government did not think it necessary to do that because we were trying to sell it in the export market. If it was for distribution within the country, it could be a different matter; but since it was a commercial deal through the STC, the use of emergency measure was not considered."

The witness stated further :

> "A distinction has to be drawn. I would say that this point was not considered. I am merely giving my personal opinion. If it is a commercial transaction, it is a different matter; if it is for public purpose, one can think of various measures which one would like to take. But that was a different situation."

1.91. On the Committee pointing out in this connection that Government had not hesitated to reduce, during the 1974-75 sugar season, the levy quota from 70 to 65 per cent and enquiring why the levy quota could not have been enhanced by 5 per cent in 1973-74 to facilitate larger quantities being exported from the levy quota, the Secretary, Department of Food replied:

> "One of the reasons was that considering the price obtaining at that time, the increase in wages, cost of cane etc., an increase was called for in the price of levy sugar. Instead of increasing the cost to the consumer, the Government decided to maintain the price at the fair price shops throughout the country at Rs. 2.15 per kg. and to do so they increased the levy free quota for the industry from 30 to 35%."

Asked whether it was absolutely necessary to reduce the levy quota, which appeared to indicate that Government was more concerned about the interests of the sugar industry, and whether the then prevailing high prices of free sale sugar were not adequate to meet the alleged increased costs of production, the witness replied :

> "You will have to take the price obtaining throughout the year, not at the lean period of production in the year. If you go through the prices obtaining during the whole of the year, you will get a better picture. Now, at that point of time there was an expectation of a higher crop. Wages had been increased, there was an increase in costs and the cane price also had been increased, and, according to the formula laid down by the Tariff Commission, the price of the levy sugar had to be fixed. If we fix the price of the levy sugar by that formula, we have to increase the price which means that the consumers will have to pay more which the Government did not wish to do. The other way out was to reduce the excise duty or we could have changed the proprtion. The Government decided to change the proportion slightly. That was in 1974-75.
>
> "I can only submit that the decision to change the proportion was taken in the best interests of the consumer. That is all that I can say and it is borne out by the price situation that obtained then."

1.92. Having gone through the Audit paragraph, the Committee are inclined to take a dim view of the manner in which the question of procuring sugar for exports during 1974 and 1975 had been handled by the Department of Food and the Ministry of Commerce. It is disconcerting that on account of what can only be described as an inept handling of the situation by the departments concerned and the State Trading Corporation, resulting primarily from the determination of the export strategy on the basis of unrealistic and unreliable estimates of indigenous sugar production, Government had been placed in the helpless position of having to listen to the dictates of a recalcitrant industry and to incur an extra expenditure of as large a sum as Rs. 5.68 crores on the procurement of 1.07 lakh tonnes of sugar from the free sale market for exports. After an analysis of the evidence tendered before the Committee, it would appear that the sorry state of affairs reflected in the Audit paragraph was not entirely unavoidable. This is discussed in the succeeding paragraphs.

1.93. The Committee note that in the context of the anticipated increased production of sugar in the 1973-74 season (which was estimated in January 1974 at about 45 lakh tonnes by the Department of Food), the high international prices of sugar and the need for maximising foreign exchange earnings from exports, the Cabinet had decided on 27 February 1974, that the aim should be to export a maximum quantity of 7 lakh tonnes of sugar, including 1 lakh tonnes to the United Kingdom and the United States of America, of which 4 lakh tonnes were to be exported immediately. The Cabinet Secretary, while communicating on 1 March 1974 the Cabinet decision to the Department of Food, had also indicated that the modalities for export were to be worked out by the Department in consultation with the then Commerce Secretary. The Committee have been informed by by the Department of Food that after consultation with the Cabinet and Commerce Secretaries, a Special Committee of Senior Officers of the Ministries of Commerce and External Affairs and the Departments of Food,

Economic Affairs and Expenditure was formed to decide on the modalities of export and that this Special Committee had met five times between 13 March 1974 and 24 July 1974 and discussed matters relating to mode of sales to different countries on Government to Government basis, export of raw sugar to USA and the quantity of white sugar to be sold by the State Trading Corporation.

1.94. Even before the Special Committee on Sugar had commenced its deliberations and in spite of the fact that all along in the past sugar exports had been effected only out of the levy quota, the Department of Food, in a departure from past practice, had proposed to the Ministry of Finance on 5 March 1974 that 2 lakh tonnes of sugar should be procured from the free sale quota of the industry at a negotiated price on the ground, inter alia, that the drawal of this quantity from the levy quota would reduce the monthly release of levy sugar for internal consumption from the then existing level of 2 lakh tonnes to 1.85 lakh tonnes and also affect the additional releases of levy sugar during the summer months and the festival season. The Ministry of Finance, after carefully considering the "weighty arugments" of the Department of Food and the "substantial budgetary implication" of the proposal which had not been taken into account by the latter, had, however, pointed out on 28 April 1974 that there might not be any necessity for procuring sugar out of the free sale quota for export and that if the proposal was accepted, the Central Exchequer would have to forego a sum of not less than Rs. 22 crores and probably more, representing the difference between the levy sugar price payable to the sugar mills and the price that may have to be paid to the mills if 2 lakh tonnes were to be procured from the free sale quota. Observing in this connection that it would be "very difficult for the Central Government to forego such a large sum of money in the present context of acute budgetary stringency", the Ministry had advised that in view of the fact that the trend of production was not as earlier anticipated, the proposal might be reviewed and referred back to them by the end of May 1974 when the position in regard to indigenous sugar production would become clearer.

1.95. Strangely enough, however, even before a conclusive decision to effect exports from the free sale quota had been taken, the Department of Food had held discussion with the representatives of the sugar industry on 26 March 1974, when the representatives of the Indian Sugar Mills Association (ISMA) and the National Federation of Cooperative Sugar Factories Ltd. (NFCSF) had informed the Department that according to their latest estimate, sugar production in the 1973-74 season would be only around 43 lakh tonnes as against the previous estimate of 45 lakh tonnes and that the Joint Committee of the joint stock and cooperative sectors of the sugar industry had decided to offer to the Department of Food sugar for export from their free sale quota upto 30 per cent of the total quantity to be exported subject to a ceiling of 2 lakh tonnes, at a fixed ex-factory price of Rs. 290 per quintal (excluding excise duty). Subsequently, in a letter dated 28 March 1974, the Presidents of ISMA and NFCSF, while confirming the offer made at the meeting on 26 March 1974, had also drawn attention to the fact that the offer was subject to the condition that the existing proportion of levy sugar and free sugar quotas would be continued at 70 : 30.

1.96. The Committee find that this question was further discussed in the Department of Food on 22 May 1974 with the Minister of Food & Agriculture and the Ministry of Finance approached again on 24 May 1974 for concurrence to the proposal to export a total quantity of 6 lakh tonnes by drawing 4 lakh tonnes from the levy quota and the remaining 2 lakh tonnes from the free sale quota. The revised proposal had been based on the promise that since indigenous production might not be more than 41 lakh tonnes, it would not be possible to step up exports of sugar to more than 4 lakh tonnes by depending only on the levy portion of the production, after taking into account the requirements of the internal distribution system. Having regard to the decrease in the estimated production as compared with the earlier estimates and after getting the reasonableness of the price of Rs. 290 per quintal quoted by the industry in March 1974 checked by the Chief Economic Adviser, the Ministry of Finance had agreed, on 1 July 1974, that it would not be correct to take more than 4 lakh tonnes out of the levy quota for export and had communicated their approval for the procurement of only 1 lakh tonnes out of the free sale quota. The Ministry, while considering the price of Rs. 290 per quintal as reasonable, had also suggested that the Department of Food should negotiate with the industry so as to obtain "as low a price as possible."

1.97. Negotiations accordingly held with the industry on 15 July 1974 by the Department of Food, however, proved abortive as the industry withdrew its earlier (March 1974) offer of Rs. 290 per quintal on the ground that the levy prices originally fixed in December 1973 had not been revised by Government although the industry had paid a very high price for sugarcane and suffered losses on account of lower recovery and high cost of production and slump in the market during April-June 1974 on account of larger arrivals of khandsari sugar and other factors. The industry had, however, then suggested that the procurement work in respect of exports of sugar out of free sale quotas might be entrusted to the State Trading Corporation who could secure the required quantity for export either by inviting tenders or making direct purchases from the factories at negotiated prices. Subsequently, in a letter dated 19 July 1974, the ISMA and NFCSF had informed the Department of Food that it would be difficult for them to persuade all their member factories to deliver free sale sugar at a fixed price of Rs. 290 per quintal and had suggested that sugar for export from the free sale quota should be purchased on tender basis which would enable Government to obtain their requirement at a price not very much different from Rs. 290 per quintal as "many factories in the low cost regions will be too willing to deliver sugar in the interest of exports."

1.98. After further discussion of this question by the Special Committee on Sugar on 24 July 1974, the Department of Food was requested to make one more attempt to procure 1 lakh tonnes of free sale sugar for export "at an agreed price" from the industry. Negotiations were, therefore, once again held on 5 August 1974 when both the ISMA and NFCSF offered 1 lakh tonnes of free sale sugar at the rate of Rs. 325 per quintal (excluding excise duty), which was referred to the Ministry of Finance for acceptance on 6 August 1974. Initially, however, the Industry had voiced their earlier suggestion that the quantity required be procured by inviting tenders. The Ministry of Finance had, however, suggested on 21 August 1974 that the State Trading Corporation should be asked to purchase one lakh tonnes of sugar by inviting tenders and it appears that this decision had been based,

inter alia, on a statement made by one of the representatives of the industry during negotiations that if the Department of Food went in for tenders, the price was likely to be lower.

1.99. Before inviting tenders in pursuance of this decision, the State Trading Corporation had also conducted negotiations with the industry on 4 September 1974, when the latter offered about 1.10 lakh tonnes at Rs. 340 per quintal. Explaining the necessity for these negotiations when a decision had already been taken to invite tenders for the purchase, the State Trading Corporation have informed the Committee that in view of the fact that it was the first time that the Corporation was required to procure large quantities of free sale sugar, a decision had been taken to hold a preliminary meeting with the industry before taking a view whether to issue a tender or negotiate an agreement with the industry and that this meeting was intended to help the Corporation "to familiarise itself with the industry's set-up and its spokesman" and also "to get a feel of the market conditions." On 11 September 1974, however, a special meeting of the Directors of the Corporation considered the situation and decided that in view of the uncertain market condition, it would be more prudent to make purchased through tender.

1.100. Efforts made by the State Trading Corporation to obtain lower prices by floating a tender on 12 September 1974 also having failed on account of poor response, negotiations were again conducted with the industry by the Corporation on 18 October 1974, when the former indicated that they would make a firm commitment for only 80,000 tonnes of C-30 and/or D-30 grades of sugar at an ex-factory price of Rs. 365 per quintal. After prolonged discussions, the industry finally agreed to the price of Rs. 340 per quintal quoted earlier on 4 September 1974 for both 'C' and 'D' grades, on the condition that the factories should be paid 98 per cent of the price on presentation of documents without furnishing any bank guarantee; that the bank charges/commission incurred in respect of the despatches of sugar would be paid by the Corporation and that the factories should be permitted to sell sugar from both the production years 1973-74 and 1974-75. This was accepted by the Corporation and ultimately 90,349 tonnes were supplied at this rate. Subsequently, to meet the export commitments of the Corporation, a further quantity of 0.17 lakh tonnes was procured at the price of Rs. 360 per quintal, finalised on 16 and 26 December 1974, which was the tariff value declared by Government for the month of December 1974.

1.101. Thus, for the procurement of 1.07 lakh tonnes of free sale sugar for exports, Government, in the above milieu, had to pay to the industry Rs. 5.68 crores more than what it would have paid at the price of Rs. 290 per quintal which, having regard to the industry's cost structure, was certified as reasonable by the Chief Economic Adviser of the Ministry of Finance. The prima facie conclusion that emerges from the discussions in the foregoing paragraphs is that the preliminary negotiations held with the industry on 26 March 1974 by the Department of Food almost simultaneously after having submitted the proposal to effect exports from the free sale quota influenced considerably the subsequent course of events culminating finally in the procurement of sugar from the free sale market at prices of Rs. 340 and Rs. 360 per quintal as against the price of Rs. 290 per quintal quoted initially by the industry and enabled the industry to exploit the situation to its own advantage.

1.102. No doubt, it has been contended by the Department of Food that a definite decision to export free sale sugar was taken only in July 1974 and not earlier and the negotiations held with the industry for the purchase of free sale sugar in March 1974 before that decision was taken "was purely an exploratory one with no firm commitments on either side." it has also been stated by the Department that the proposal for meeting the industry's representatives on 26 March 1974 was not initiated by any of its officers and that while the proposal to procure 2 lakh tonnes of sugar from the free sale quota had been referred to the Finance Ministry for their concurrence in accordance with the normal practice, the industry's representatives, "who normally meet" the officers of the Department in connection with their difficulties, problems and assistance required, etc. or to advise the Department on how to improve production, "happened to meet" the officers of the Department, when they offered to cooperate and make available a limited quantity of free sale sugar upto 30 per cent of the requirements. The Committee have further been informed in this context that though the idea that exports should be maximised as much as possible was not unknown to the industry, the officers who met the industry's representatives had not disclosed to them as to what would be the quantity to be exported.

1.03. The Department have also argued that the exploratory discussions with the industry had not placed Government at a disadvantage and given rise to avoidable speculation. While conceding that the industry could certainly play with the price of free sale sugar and could take "undue advantage", the Department have, however, pointed out that the price range obtaining in the important sugar markets of the country during the relevant period would indicate that the price fluctuations were "within narrow limits" during the period from March to June 1974 and it was only from July 1974 onwards, after the fall in production during the 1973-74 season became known and the availability of khandsari sugar was also meagre, that the prices started going up. The Department have contended that it could not be, therefore, said that the industry took an undue advantage of the discussion held on 26 March 1974 and the prices of wholesale sugar were deliberately manipulated by it.

1.104. It, however, appears on the evidence that adequate care was not taken by the Department to ensure that the industry did not get to know, during what has been described as "a purely exploratory" discussion, Government's thinking on this important question. Though it was stated during evidence by the Secretary, Department of Food that the quantities to be exported "were never revealed" to the industry at these discussions, the Committee find, from the letter of 28 March 1974 from the Presidents of ISMA and NFCSF, that at the meeting held on 26 March 1974, the question of exports during 1974 was generally discussed when a suggestion had been made by the representative of the Department of Food that "if need be, sugar for exports may be procured in the proportion of 70% levy sugar and 30% free sale sugar". It would, therefore, appear that Government's intention of effecting exports from the free sale quota and to make a departure from the past practice in this regard had been communicated to the industry in March 1974 itself and it is inconceivable to the Committee that the industry would not have taken advantage of this information. No minutes of the meeting held on 26 March 1974 having been prepared, the Committee have also not been in a position to satisfy themselves fully that

the quantities to be exported were not, even inadvertantly, disclosed to the industry. It is, however, significant in this context that the quantity of free sale sugar offered by the industry (2 lakh tonnes) also corresponded to the quantity initially proposed by the Department of Food to be exported from the free sale quota. The Committee are, therefore, doubtful how far it was prudent to have disclosed to the industry, during the exploratory discussions, Government's intention to export free sale sugar without having any firm indication of the actual production and in the absence of any definite decision in this regard.

1.105. As regards the argument of the Department of Food that the inference that the exploratory discussions had placed Government at a disadvantage and had given rise to avoidable speculation was not correct in view of the steady condition of the market during March to June 1974, the Committee need hardly point out that till June 1974, no definite decision to effect exports out of the free sale quota having been taken and in the content of the easy availability of khandsari sugar during this period, the industry could have ill afforded to play with the free sale sugar prices and that while the bullish trend of the free sale sugar market from July 1974 onwards could perhaps be attributed to a certain extent to the fall in production and meagre availability of khandsari sugar, the final decision to procure sugar for export from the free sale quota taken on 1 July 1974 must have had its impact on the prices which admittedly could be manipulated by the industry. In would, therefore, be facile to assume that the industry would not have exploited the situation to its own advantage. Yet another fact which is relevant in this connection is that even as late as in August 1974, the judgment of the Ministry of Finance was that it might be possible to obtain a lower price than Rs. 325 per quintal quoted by the industry on 5 August 1974 and even in July 1974, the industry's own representatives had suggested that Government might be able to obtain their requirement from the factories in the low cost regions at a price "not very much different" from Rs. 290 per quintal. It is also significant in this context that it was the industry which at every stage suggested the course of action to be adopted by Government. It is also amply evident that the industry had resiled from its earlier offer primarily because its expectations of a quid pro quo arrangement, viz., revision of levy sugar prices fixed in December 1973 and payment of compensation by the State Governments for the high cane price paid by the factories, had not materialised. In these circumstances, the conclusion that the premature step of holding discussions with the industry in March 1974 influenced the subsequent course of events is fairly inescapable.

1.106. The Committee find that purchases of free sale sugar at considerably high prices had to be resorted to mainly because the State Trading Corporation had entered into export commitments in excess of the quantities initially authorised. Though the decision taken on 1 July 1974 to procure 1 lakh tonnes of free sale sugar for export had been communicated formally to the Corporation by the Department of Food only on 22 August 1974 and arrangements had also not been finalised to procure free sale sugar from the internal market, the State Trading Corporation had entered into export commitments by 23 July 1974 for a quantity of 0.63 lakh tonnes of sugar over and above 3 lakh tonnes of white sugar and 1 lakh tonnes of raw sugar (total : 4 lakh tonnes) authorised for export out of the levy quota by the Department of Food. This according to the Department of Food, "had also to some extent contributed to the difficult situation."

1.107. The picture that emerges in this regard is somewhat disquieting. While the Chairman of the State Trading Corporation contended before the Committee that the export commitments entered into by the Corporation were always within the allocations sanctioned and that the question of over-contracting just did not arise, the Secretary, Department of Food maintained that the allocation available at that time to the Corporation was only 4 lakh tonnes, as against which contracts had been entered into for a total quantity of 4.63 lakh tonnes till 23 July 1974 (including 1 lakh tonnes of raw sugar meant for U.K. and U.S.A. under international agreements). The Committee find that at the meeting of the Special Committee on Sugar held on 24 July 1974, the representative of the Department of Food had also pointed out that the Department "had not informed the STC of the additional provision of 1.00 lakh tonnes for export out of free sale quotas (approved by the Ministry of Finance on 1 July 1974), and arrangements for its procurement had not been finalised yet, and in the absence of any such information STC should not have effected excess sale without obtaining the specific concurrence of the Department of Food." The Food Secretary had agreed with this view and had added that while the Department "would help to fulfil the commitment already made by the STC", the Corporation was not to make further sales without the prior concurrence of the Department of Food.

1.108. In view of the conflicting nature of the statements made by the representatives of the Department of Food and the State Trading Corporation on this question, the Committee have found it necessary to examine this in some detail. On detailed enquiries, they are surprised to learn that even while the 24 May 1974 proposal of the Department of Food to export a total quantity of 6 lakh tonnes of sugar (4 lakh tonnes from the levy and 2 lakh tonnes from the free sale quotas) was under the Finance Ministry's consideration and a final decision was yet to be taken, "it was clear when the Ministers of Commerce and Agriculture met in June that at least one lakh tonnes would be agreed upon." While admitting in this context that when the State Trading Corporation entered into export commitments in excess of quantities allocated, "it did not have a written authority from the Department of Food", the Secretary (Foreign Trade), however, informed the Committee that "as far as information or knowledge of this discussion (between the Ministers) was concerned", the Corporation was "fully in the picture" and "knew all the time as a result of close contact" with the Food Department and the Commerce Ministry that at least 1 lakh tonnes as against the 2 lakh tonnes asked for were going to be released for their sales. He further added that after studying the market trends at that time and finding that it had "to enter the market in a big way", the Corporation thought, "in its commercial wisdom", that it "should start that, in his analysis, the State Trading Corporation "acted in very good making commitments in anticipation of this release of one lakh tonnes" and faith and did its best to get the maximum unit value."

1.109. If this were indeed so, it is not clear to the Committee why no formal communication to this effect was sent by the Department of Food to the State Trading Corporation before 22 August 1974 and why it was necessary for the Special Committee on Sugar to have criticised the action of the State Trading Corporation. It is also significant that no reference had been made by the Corporation's representative at the Special Committee's meeting of 24 July 1974 to the reported meeting between the two

Ministers. It is still more strange that, apart from a note recorded on 24 June 1974 in the relevant file of the Commerce Ministry by the then Additional Secretary in the Ministry, wherein a mention had been made by him that the Food Secretary had informed him that "at the meeting between the Commerce Minister and the Minister for Agriculture already a decision has been reached to increase the quota for export from 4 lakh tonnes to 5 lakh tonnes", no formal record of the discussion between the two Ministers is stated to be available either in the Commerce Ministry or the Department of Food. The note recorded by the Additional Secretary was also not sent to the Department of Food; neither had he made any mention of this note and the reported discussions between the two Ministers at the 24 July, 1974 meeting of the Special Committee which he subsequently attended. Besides, apart from informing the Committee that the meeting between the two Ministers "appears to have been of an informal nature" and no representative of the State Trading Corporation "appears to have been present at this meeting", neither the Commerce Ministry nor the Department of Food have been able to vouchsafe when this alleged meeting between the two Ministers was held and when and how exactly the reported decision of the two Ministers to release 1 lakh tonnes of free sale sugar for export was conveyed to the State Trading Corporation. In these circumstances, the Committee have not been in a position to satisfy themselves fully whether the State Trading Corporation was justified in entering into export commitments in excess of the allocations made by the Department of Food.

1.110. The reasonableness of the prices paid to the industry for the procurement of free sale sugar is also open to question. The Committee find that while the industry had quoted the price of Rs. 290 per quintal and Rs. 325 per quintal respectively in March and August 1974, free sale sugar for export during 1974 had actually been procured in October 1974 and December 1974 at Rs. 340 per quintal and Rs. 360 per quintal respectively. The State Trading Corporation have sought to justify these prices on the ground that the free sale sugar market was bullish at the relevant time and the price of Rs. 340 per quintal (October 1974) was considered to be in line with the then prevailing market level and that the price of Rs. 360 per quintal finalised in December 1974 was "the best possible obtainable" and was in line with the tariff value declared by Government for December 1974. It is, however, not clear to the Committee why the analogy of the tariff vaue, which is supposed to be an index of the then prevailing wholesale prices, was not applied on the earlier occupations. the Committee find that when the price of Rs. 340 per quintal was agreed upon in October 1974, the tariff value for free sale sugar was only Rs. 320 per quintal and that when the industry had quoted the prices of Rs. 340 per quintal (September 1974), Rs. 325 per quintal (August 1974) and Rs. 290 per quintal (March 1974), the then prevailing tariff values were respectively Rs. 305 per quintal, Rs. 290 per quintal and Rs. 270 per quintal. Besides, apart from the quantity of 0.17 lakh tones procured at the price of Rs. 360 per quintal in December 1974, for export during the year 1974, the Committee have been informed that additional quantities of 1.72 lakh tonnes were also procured at the same price of Rs. 360 per quintal finalised in December 1974 and were shipped during 1975. In view of the fact that production from 1974-75 sugar season would have started coming in by then leading to a fall in free sugar prices and the tariff value for free sale sugar had also been subsequently reduced periodically by Government (Rs. 345 per quintal with effect from 1 February, 1975, Ds. 330 per quintal with effect

from 1 March 1975 and Rs. 310 per quintal with effect from 1 April 1975), the Committee are unable to appreciate why the State Trading Corporation failed to take advantage of the downward trend of the free sugar market and bound themselves to the obviously unreasonable price of Rs. 360 per quintal in respect of shipment effected during 1975.

1.111. Apart from the immediately ascertainable extra expenditure of Rs. 5.68 crores on the transaction highlighted in the Audit Paragraph, the decision to effect exports from the free sale quota, in a departure from past practice, has also resulted in a considerable additional burden on the exchequer by way of difference between the price that would have been payable had sugar for export been procured only from the levy quota and the prices actually paid for the purchase of free sale sugar, as well as in an erosion of the profits that would otherwise have been available to Government from exports of levy sugar. It is, therefore, a moot point whether, even if export of additional quantities had been considered inescapable in the interest of maximising foreign exchange earnings, the entire quantity of 5.07 lakh tonnes exported during 1974 could not have been obtained only from the levy quota. This could have been done either by regulating suitably the releases of levy sugar for internal consumption or, in the alternative, by adjusting suitably the proportion of levy and free sale quotas and obtaining the additional quantity required for meeting the export commitments out of such an enhanced levy quota rather than succumbing, as it appears to have happened, helplessly to the dictates of the industry.

1.112. The Committee have been informed in this connection that if a quantity of more than 4 lakh tonnes had been drawn for export out of the levy quota, this would have adversely affected the availability of levy sugar for the public distribution system and, besides causing resentment among the consumers, would have also pushed up the price of free sale sugar and it was, therefore, not considered proper to do so. The Committee, however, find that internal consumption of sugar had remained almost constant during the 1972-73 and 1973-74 sugar seasons (being respectively 35.11 lakh tonnes and 35.29 lakh tonnes) in spite of the fact that the total production of sugar in the 1973-74 season (39.48 lakh tonnes) was more than that in the 1972-73 season (38.73 lakh tonnes) and at the beginning of the 1973-74 season, a carry-over stock of 8.64 lakh tonnes of sugar was also available as against the carry-over stock of only 5.99 lakh tonnes at the beginning of the 1972-73 season. Besides, by the time sugar for exports from the free sale quota had actually been procured, the 1974-75 sugar season had also commenced. It is also significant in this context that even as late as in September 1974, a suggestion had been made at the special meeting of the Board of Directors of the State Trading Corporation (11 September 1974) that efforts to obtain more levy sugar out of the current crop should continue so that purchase of free sale sugar could be postponed to a later date. The Committee cannot, therefore, help feeling that with a little initiative and imagination, ways and means could have been found to confine the exports only from the levy quota.

1.113. As regards the other alternative of revising upwards the proportion of the levy quota, the Department of Food have informed the Committee that as this was purely a commercial transaction between the State Trading Corporation and the industry, Government had not considered this

point. Yet, Government had not hesitated to reduce, during the 1974-75 sugar season, the levy quota from 70 to 65 per cent and though it has been claimed that this decision "was taken in the best interest of the consumer", the Committee cannot resist the impression that the policy of partial control on sugar has favoured the industry more than the consumer. The consider it regrettable that Government had not been able to take adequate corrective action to discipline the industry, particularly in the light of the recommendations of the Tariff Commission, 1973, that "if the industry cannot be disciplined to keep the price fluctuations of free market sugar within reasonable limits, or if any practical mechanism cannot be evolved by Government to control the price and distribution of such sugar, the solution may lie in a suitable adjustment, from time to time, in the ratio between the levy quota and the free market quota so that the profits accuring to the industry through free sale sugar do not show any run-away tendency."

1.114. It would, therefore, be evident from the discussions in the foregoing paragraphs that the manner in which the question of procurement of sugar for export was handled was far from satisfactory and that the decisions taken from time to time were weighted more in favour of the sugar industry than of the interest of the Government. The circumstances in which the State Trading Corporation entered into export commitments in excess of the allocations and the Department of Food considered it necessary to discuss with the industry Government's intention to export free sale sugar even before a definitive decision was taken in this regard have also not been satisfactorily explained and have given rise to grave doubts in the Committee's mind. It would appear, therefore, that there is more to this transaction than what meets the eye. Having due regard to the number of missing links in the transaction and the magnitude of the extra expenditure involved, the Committee are firmly of the view that only a detailed enquiry under the Commission of Enquiry Act would bring to light the wider ramifications of the transaction commented upon in the Audit paragraph. They accordingly recommend that such an enquiry be instituted forthwith and completed expeditiously.

1.115. The state of affairs reflected in the Audit paragraph could well have been avoided had the export strategy been determined on the basis of a more realistic and reliable forecast of indigenous sugar production. The Committee are concerned to note that on account of the inability to forecast more accurately production trends, the estimates had to be periodically revised downwards within as short span of time, contributing in no small measure to the disastrous consequences that ensued. While the Cabinet had decided, in February 1974, that a maximum quantity of 7 lakh tonnes of sugar might be exported on the basis of the estimates made in January 1974 by the Department of Food that sugar production during the 1973-74 sugar season (October 1973—September 1974) would be about 45 lakh tonnes, the industry had informed the Department of Food, on 26/28 March 1974, that, according to its estimate, the production would not be more than 43 lakh tonnes. Actual production of sugar till April 1974, when the normal crushing period of the factories would have come to a close, was, however, only 35.81 lakh tonnes and the estimates were further revised by the Department of Food in May 1974 to 41 lakh tonnes. In spite of the downward revision, from time to time, of the estimates, actual production during the sugar season amounted to only 39.48 lakh tonnes, which was only slightly more (0.75 lakh tonnes) than the production of 38.73 lakh tonnes achieved during the 1972-73 sugar season.

1.116. The Committee have been informed in this connection that the original estimates were only "very rough estimates based on the area which is brought under cultivation of sugarcane" collected through the Economics and Statistical Organisation of the Department which, in turn, obtained the information from the State Governments as well as its own offices located in various States, and through the sugar factories themselves. The Committee, however, find that while the Directorate of Economics & Statistics in the Ministry of Agriculture & Irrigation prepares the estimates of area and production of principal crops (including sugarcane) on the basis of the data furnished by the State Governments which collect relevant information in this regard through their Departments of Agriculture. Industries and Co-operation and the Offices of the Cane Commissioner and Directorates of sugar (where they exist), much of the statistical data in regard to production trends, capacity utilisation, rate of sugar production, etc. are obtained from the sugar factories themselves and the associations (ISMA, NFCSF, etc.) of the sugar industry. Admittedly, no machinery is available with the Department of Food to check the installed capacity or the utilisation rate during the period of crushing and reliance is placed in this regard on the industry itself under the 'Self Removal Procedure' for excisable commodities. The State Governments also appear to place reliance on the industry itself for compiling data on sugar production.

1.117. It would, therefore, appear that in so far as estimation of sugar production is concerned, on the basis of which the export strategy is determined, an almost exclusive reliance is placed on the industry and that no monitoring machinery is available with the Department of Food to check the veracity and reliability of the data furnished by the industry so as to safeguard against the possibility of exaggerated and unrealistic forecasts. In the light of the oservations contained in the Report of the Central Excise (Self Removal Procedure) Review Committee (September 1973) in regard to various malpractices adopted by the sugar factories (underweighment of cane with a view to evading duties, manipulation of production accounts so as to claim higher rebates or larger refunds, etc.), the Committee are doubtful how far it is a sound policy to place an excessive reliance on the data made available by the industry.

1.118. These facts, therefore, only serve to emphasise the need for devising a more suitable system for a scientific and more accurate forecasting and estimation of production so as to reduce the wide gap that exists at present between the estimates and actuals. The Food Secretary, however, appeared to derive comfort from the fact that, on account of the imponderable factors involved, even technically best equipped countries were not in a position to predict fairly and accurately as to what would be the production of a particular crop. The Committee have also been informed subsequently by the Department of Food that the variations between the estimates and actuals of production were attributable to changes in climatic conditions, incidence of pests and diseases, the quality of cane, diversion of cane to gur to khandsari units etc. and that these factors are such that they do not lend themselves to making a more accurate forecast of production. While the Committee are not unwilling to concede that any estimate can be vitated by a number of unforeseen and unpredictable factors, they are, however, of the view that it should not be beyond the capabilities and ingenuity of experts in the field of econometrics to evolve

a more satisfactory system of forecasting where the reliance at present placed on the industry could be minimised, if not altogether eliminated. A critical review of the projections made from time to time would also appear to be necessary to determine what actually went wrong in the estimation so as to adopt concrete corrective measures. The Committee, therefore, recommend that such a review should be undertaken with the help of expert assistance and the procedures and practices for the estimation of production stream-lined with a view to ensuring that the estimates approximate as closely as possible to the actuals.

II

SUGAR EXPORTS BY STATE TRADING CORPORATION

Audit paragraph :

2.1. Department of Food used to sell sugar for export through open tender system. On the other hand, State Trading Corporation adopted 'bid-system' under which contracts were entered into through restricted negotiations with international sugar and commodity traders. Bids were obtained through the Corporation's foreign offices situated in London, New York, etc., and were valid for 24 hours for acceptance. The Ministry of Commerce stated (December 1975) that "it was felt that better prices would be realised if sales were made against specific enquiries and market demand rather than through tenders when the market may lack the necessary buying strength...." and that there was "need to introduce an element of competition so as to attract more bids for Indian sugar."

Sales to United States of America under the U.S. Sugar Act.

2.2. On 17 May 1974, Department of Food instructed the State Trading Corporation to sell the quota of 75,000 tonnes of raw sugar to United States of America exercising its best commercial judgement and ensuring at the same time that the procedure adopted did not infringe the U.S. Sugar Act.

2.3. State Trading Corporation obtained bids through its foreign offices and bids obtained on 23 May 1974 in New York and Delhi were examined and contracts on firm f.o.b. basis were settled at the price and for the quantities specified below :

Date of contract	Name of the buyer	Quantity contracted	Delivery period	Price f.o.b.* (in U.S.A.)	Quantity shipped	Date of shipment
		(in tonnes)			(in tonnes)	
25-5-1974	B	16,200	June 1974	429	15,875	July, 1974
25-5-1974	B	16,800	June, 1974	429	16,258	June 1974
25-5-1974	C	14,700	July 1974	420	14,700	July 1974
31-5-1974	D	14,700	July 1974	429	12,899	July 1974
31-5-1974	D	12,600	August 1974	427	14,000	September 1974
	Total:	75,000			74,732	

*State Trading Corporation's sale price worked out to 19·46 cents per pound and 19·37 cents per pound (f.o.b.) equivalent to 22·58 cents and 22·49 cents per pound c.i.f. U.S. port duty paid delivered basis.

2.4. Sales to the United States of America are made on the basis of the United States domestic price of spot contract No. 10 quoted by the New York Coffee and Sugar Exchange which is in terms of U.S. cents per pound c.i.f. duty paid delivered basis. Such quotations from the beginning of 1974 were as follows :

Average for January 1974	U. S. cents 12·63 per pound.
Average for February 1974	U. S. cents 17·09 per pound.
Average for March 1974	U. S. cents. 18·11 per pound.
Average for April 1974	U. S. cents 19·25 per pound.

2.5. The price was thus continually rising. It was 17.25 cents per pound on 1 April 1974, 20.50 cents per pound on 30 April 1974, 23.25 cents per pound on 15 May 1974 and 24.25 cents per pound from 24 May 1974 to 31 May 1974.

2.6. Actual sales for the months of April 1974, May 1974 and June 1974 to U.S.A. under the U.S. Sugar Act by other exporting countries, as reported in fortnighly News-Letter published by a sugar broker of New York, reveals that, except a small quantity purchased from the South American countries, all other sales were at par or above the spot No. 10 quotations prevalent on the date of sale.

2.7. Prior to transfer of work to State Trading Corporation, Department of Food had all along finalised contracts for sale of raw sugar under the U.S. Sugar Act at prices determined on the average of the prices of spot contract No. 10 published by the New York Coffee and Sugar Exchange for the period from March and September/October of that year plus a fixed premium.

2.8. But all the sales effected by the State Trading Corporation of India were below the domestic quotations—the total amount less being U.S. $ 27,78,526 equivalent to Rs. 2.23 crores.

2.9. Even in the cases of the South American countries the gap between the prices realised by them and the spot No. 10 quotations was less than that in the case of India. The Ministry of Commerce stated (December 1975) that there was "apprehension created in the minds of foreign buyers about India fulfilling its commitments on account of the 'Force Majeure' (following the strike by Indian Railways) declared on 9 May 1974 by the Department of Food in respect of shipments of sugar sold by it." The railway strike continued up to 28 May 1974. The prices realised against the two contracts executed on 31 May 1974, after the railway strike ended, were also less than the spot No. 10 quotations.

2.10. Against its offers for sale, State Trading Corporation had also received offers from three reputed trade houses for the total quantity on the average pricing pattern. These bids, if accepted, would have given an additional price advantage of Rs. 12.46 crores to Government.

Sale of white sugar

2.11. The monthly average of London daily price (which is c.i.f. from Caribbean ports to London for raw sugar) was almost constant at £ 225 during February 1974 to April 1974. It rose to £243 in May 1974. It was £ 243 in June 1974 and started rising from the third week of July 1974 and reached £ 277 by the end of July 1974. By 7 August 1974 it reached £ 300 and was continuously on the increase except for four days in August 1974 and reached £ 355 on 30 August 1974.

2.12. Results of beet tests indicating the expected production/yield published by some European countries in the first week of August 1974 confirmed that the outlook for the crop was not very promising. The crop in United Kingdom was also expected to be bad due to virus infections.

2.13. In August 1974 the U.S. Department of Agriculture also announced suspension of restriction on import of sugar to the United States of America during the remainder of the year 1974. This was expected to result in absorption of more sugar by United States of America, thereby further accentuating the expected shortage of sugar in the world market.

2.14. The details of contracts executed by the State Trading Corporation with foreign trade houses for white sugar in 1974 and the London daily prices for raw sugar (which are c.i.f. from Caribbean ports to London) prevailing on the dates the contracts were executed are shown below :

Date of contract	Party	Quantity (tonnes)	F. o. g. India price for white sugar per tonne	London daily prices for raw sugar c.i.f. Caribbean ports per ton
			£	£
17-4-1974	H	11,000	266	230
17-4-1974	E	11,000	285·07	230
18-4-1974	X	33,000	270	240
19-4-1974	A	11,000	272	244
1-5-1974	A	11,000	273·50	238
6-6-1974	G	11,000	275	250
2-7-1974	A	44,000	267	232
11-7-1974	A	11,000	274	240
12-7-1974	G	11,000	273	238
15-7-1974	G	11,000	274	245
15-7-1974	F	33,000	268·50	245
16-7-1974	A	22,000	270	250
22-7-1974	A	11,000	274	274
23-7-1974	E	11,000	280	276
23-7-1974	E	11,000	274	276
5-8-1974	F	33,000	285	285
6-8-1974	G	11,000	291	290
7-8-1974	A	11,000	298·25	300
7-8-1974	A	22,000	300·50	300
27-8-1974	A	66,000	315	340
23-9-1974	E	10,000	341	360

2.15. It will be seen from the above that during 17 April 1974 to 16 July 1974 the f.o.b. prices obtained for Indian white sugar were substantially higher (not less than £ 20 per tonne) than the London daily prices for raw sugar (c.i.f. Caribbean ports). However, during 22 July 1974 to 23 September 1974, the f.o.b. prices obtained from export of Indian white sugar were on three occasions very slightly higher, on two occasions equal to it and on the four remaining occasions were, in fact, lower than the London daily prices for raw sugar.

2.16. It will also be seen that during the middle of April 1974 to middle of July 1974 there was not much variation in both the f.o.b. prices for Indian white sugar and the London daily prices (c.i.f. Caribbean ports) for raw sugar. From the middle of July 1974 international prices of sugar started rising sharply. Between 16 July 1974 and 23 September 1974, London daily prices (c.i.f. Caribbean ports) rose by 44 per cent from £ 250 to £ 360 per ton, while f.o.b. price for Indian white sugar rose by about only 26 per cent from £ 270 to £ 341 per tonne.

Rescinding of contract

2.17. Out of total quantity of 6.32 lakh tonnes sold by State Trading Corporation up to March 1975, 2.84 lakh tonnes were contracted with a commodity trader, 'A' who is not normally in the international sugar business.

2.18. Except 0.33 lakh tonnes and 0.36 lakh tonnes sold in April 1974 and March 1975 respectively, two leading trade houses in Sugar—'X' and 'Y'— did not get any contract for purchase of Indian white sugar. But they actually repurchased 1.67 lakh tonnes out of 3.46 lakh tonnes shipped up to December 1974, from those with whom these contracts were entered into, the principal one of which was 'A'.

2.19. Against contracts signed with 'A', deliveries in all cases up to December 1974 were taken by firms other than the contracting party.

2.20. The monthly average of L.D.P. was £ 397 in October 1974, £ 566 in November 1974 and £ 460 in December 1974. London daily price started coming down in 1975. Its monthly average was £ 392, £ 341, £ 261, £ 240, £ 180 and £ 145 during January 1975 to June 1975.

2.21. Between December 1974 and March 1975, State Trading Corporation contracted for sale of 1.47 lakh tonnes of sugar, of which 0.75 lakh tonnes was with 'A'. 'A' signed the contract dated 19 December 1974 for 11,000 tonnes. It did not sign the other two contracts for 31,000 and 33,000 tonnes dated 10 March 1975 and 17 March 1975. Except one contract with 'A' for £ 473 per tonne in December 1974, all these sales were at prices ranging between £ 292 and £ 311.50 per tonne.

2.22. The format of the contract adopted by the State Trading Corporation for free world destinations stipulates that "should however buyer fail to declare vessels within the extended delivery period, it shall be deemed to be a breach of the contract on the part of the buyer for the quantity, whole or part, which remains unlifted at the cost, losses and damages to the account of the Buyer", and provides for arbitration by the Council of Refined Sugar Association in London, whose decision is enforceable in law in the United Kingdom.

2.23. While all the other purchasers took delivery, 'A' did not take delivery of 0.63 lakh tonnes against its contracts for 0.75 lakh tonnes. These contracts were rescinded by the State Trading Corporation without taking recourse to the contractual provisions as the Corporation thought that prespects of recovery of claims in the event of starting litigation were poor. A fresh contract for 0.60 lakh tonnes in lieu of the rescinded contracts was entered into with 'A' by the State Trading Corporation in July 1975 at $ 525 (£ 219.39) per tonne. As compared to the prices in the rescinded contracts, Government got £ 78.95 lakhs (Rs. 14.91 crores) less.

[Paragraph 27 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil), pp. 47-53].

A. *Transfer of work to S.T.C.*

2.24. As has been pointed out earlier in paragraph 1.7, since early 1974, export of sugar has been entrusted to the State Trading Corporation on agency basis and the Corporation was to be paid a service charge of ½ per cent of the sale price in addition to the reimbursement of other expenses incidental to exports. The Committee were informed by the Food Secretary during evidence that the responsibility for purchasing sugar within the country and exporting outside was entrusted to the State Trading Corporation with effect from 9 April 1974 and that the decisions in regard to the quantities of sugar to be exported and the proportion of levy and free-sale quota were taken by Government in the Department of Food in consultation with the Ministry of Finance.

2.25. Explaining, at the Committee's instance, the reasons for the transfer of the work to the State Trading Corporation, the Food Secretary stated in evidence :

> "The decision was taken by the Government at the highest level. One of the reasons was this. Earlier, the export from the country was of a very small order, of about 2-3 lakh tonnes a year. In view of the fact that there was the need to expert more, it was felt by the Government that STC which had its organisation abroad would be in a better position to have marketing intelligence and may be able to get better value for the sugar that was being exported. So, that decision was taken on that basis."

Asked whether it had been decided to entrust this responsibility to the Corporation because the earlier performance of the Deparment of Food in this sphere was considered inadequate, the witness replied :

> "I do not think there was any such reason for it. The reason was that the Government thought that since STC had its own organisation in London, Paris, USA and in other places and we were now thinking of expanding export activities in a big way, as they were also exporting other articles, it would be better to entrust this also to STC. That was the decision which the Cabinet took in its wisdom. That was the decision the Cabinet had taken. I don't think there was any reflection on the working or the inadequacy of the Food Department in the matter."

In a note furnished subsequently in this regard the Department of Food have stated :

> "In the context of the high target of sugar exports during 1974 with a view to earning the maximum foreign exchange taking full advantage of the prevailing high prices in the international market, it was considered at the highest level that sugar for export should be sold out by negotiations and not merely by the conventional method of calling for international tenders. For this, it was felt that it would be an advantage to utilise the services of the State Trading Corporation as it had a net work of offices abroad and was better equipped to do so.
>
> In pursuance of the above decision the Food Secretary took a meeting on 8 April 1974 with Additional Secretary, Ministry of Commerce, Chairman, STC, Joint Secretary, Finance (Expenditure), Joint Secretary (Sugar) and Additional Chief Director (S&V). It was agreed that whatever profits the STC made in the sale of sugar for exports would be credited to the Consolidated Fund of India after retaining for itself the service charges at a rate to be finalised after discussion with the Associate Financial Advisers of the Ministry of Commerce and the Department of Food.
>
> These decisions were then approved by the Minister of Agriculture and Minister of Commerce."

2.26. To another question whether the expertise and experience available with the Department of Food had also been transferred to the State Trading Corporation, the Food Secretary replied :

> "Our experience and our expertise is always available to all the sister ministries and not only to the STC. Actually there was a Coordination Committee functioning under my Chairmanship, with representatives from External Affairs, Finance, Commerce, Expenditure and other Departments where, in a coordinated way, decisions were being taken in regard to these matters."

2.27. Since the State Trading Corporation was to be paid the actual cost of exports plus a guaranteed commission of ½ per cent of the sale price, the Committee desired to know whether this was a satisfactory arrangement and how the Department of Food ensured that the costs incurred by the Corporation were the very minimum. In a note, the Department of Food stated :

> "The arrangement to pay the STC the actual cost of exports plus a guaranteed commission was based on a decision taken in the Special Committee and there is no reason to feel that it is not a satisfactory one. The accounts of the STC, which functions under the administrative control of the Ministry of Commerce, are subject to audit by the Company's auditors and also by the Comptroller and Auditor General of India according to laid down procedures."

2.28. The following table, furnished at the Committee's instance by the Department of Food, indicate details of the amount payable to the State

Trading Corporation as commission on exports of sugar :

(Rupees in lakhs)

Year	Commission
1974	88·60
1975	218·29
1976*	81·56

*Upto 31 March 1976.

2.29. Asked whether Government had made any comparative study of the economics of exports effected through the Department of Food and those handled by the State Trading Corporation, the Department of Food, in a note, replied :

> "The Government have not felt the need for undertaking such a study so far, keeping in view the purposes for which the work was transferred to the S.T.C."

2.30. The Committee desired to know what special arrangements had been made by the State Trading Corporation to handle the large volume of sugar exports. The Chairman of the Corporation stated in evidence :

> "As far as handling, storage and movement of sugar are concerned, it is being done by ISIEC (Indian Sugar Industry Export Corporation) which is the agency formed for the purpose. As far as selling of sugar is concerned, we are doing it ourselves and there is a Director in charge, there is a Chief Marketing Manager and he is assisted by Marketing Managers and Deputy Marketing Managers. They are frequently in contact with the foreign offices and also we get commercial intelligence reports, telex messages from intending purchasers. The Management Services Division also makes an alaysis of the sugar market every week, every day or as may be necessary from time to time."

B. *Modalities of Export*

2.31. The Audit paragraph points out that while the Department of Food used to sell sugar for export through tenders, the State Trading Corporation had adopted the 'bid system' under which contracts were entered into through restricted negotiations with international sugar and commodity traders and that justifying this procedure, the Ministry of Commerce had stated (December 1975) that "it was felt that better prices would be realised if sales were made against specific enquiries and market demand rather than through tenders when the market may lack the necessary buying strength". The Committee desired to know the reasons for the State Trading Corporation deviating from the 'open tender system' which was the normally accepted method of purchase or sale. The Chairman of the State Trading Corporation stated in evidence :

> "As you know in 1974 we entered sugar market in a big way. We tried to adopt all the procedures and methods including those which the Department of Food had followed previously. We tried open tender in world market. Our experience of the tender system was not satisfactory. There were two or three examples. There were

> also negotiations with foreign buyers. We thought we could try several methods of sale. One of the reasons for this work being transferred to STC was that they could adopt commercial methods, not bound to any particular system. They could adopt whatever method was advantageous. We found the method of direct negotiation with parties through our foreign offices etc. to be the method which gave us a higher price. We could get better price by using 3 or 4 or 5 of our offices. Therefore, we came to the conclusion that tender was not always the best method of sale."

Asked whether Government had specifically authorised this deviation and if the Finance Ministry had been consulted in the matter, the witness replied :

> "For any sale we always have consultations with Commerce, Finance, Department of Food and so on. Contracts are concluded after discussion with parties concerned."

The representative of the Finance Ministry, however, stated in this context as follows :

> "The STC is an autonomous body. It is free to adopt its own methods of purchase/sale. There is a convention in STC like this. In case of big, high-value contract costing over Rs. 3 crores, Government directors on Board of Directors would be associated when finalising the deal. There is no formal reference to Government. Everything is left to the discretion of the Board on which there are Government representatives also. There is no formal approval of Government but the Government representatives on the Board of Directors are associated with the decision."

He added :

> ".....strictly there was no reference to the Finance Ministry for adopting this procedure.....Government's representatives are represented on the Board and they are also party to the decision. STC's decision takes place in direct association with them."

2.32. A note furnished, at the Committee's instance, by the Ministry of Commerce/State Trading Corporation indicating the circumstances in which the Corporation resorted to selling sugar by the 'bid system' and the comparative advantages and disadvantages of this system as compared with open tenders is reproduced below :

> "At the time export of sugar was entrusted to STC—in April 1974—international sugar market was speculative and unstable on account of various factors such as varying opinions on world supply situation, emergence of affluent market in OPEC countries and advent of India as a larger seller than before.
>
> *Advantages of Tender System* :
>
> (i) The tender system may be preferred to the bid system, in as much as it has built-in administrative safeguards; and
>
> (ii) the tender system would theoretically permit all interested parties to participate in the tender.

Disadvantages of Tender System :

(i) Although STC followed the bid system, the tender system was also tried. And our experience of the tender floated on 9-7-1974 was not particularly encouraging; only four offers were received, which were lower than those obtained through the bid system.

(ii) (a) In a tender, a few days notice has necessarily to be given for parties to give offers. This loses time.

(b) Again, the timing of a tender issued in the absence of a specific demand from buyers does not evoke the best response. It has been found better to sell sugar when the buyer is in the market.

(c) The time of delivery has a direct bearing on the price realisation. In a tender, the delivery period is stipulated by the seller, which may or may not suit the buyers' requirements.

(iii) A tender system is less elastic and the bidders have to provide a cushion in the prices offered to cover the risk over a longer period for which the offer has to be kept valid as against a bid, the validity of which could be for a short period, even for an hour or less.

Advantages of Bid System

(i) In the above circumstances, the view taken by the STC was that bid system was likely to secure best prices; with the flexibility of negotiations, having regard to price movements, market requirements in terms of quality, destination and delivery period, etc. Accordingly, sales were made in response to enquiries. And, no one was denied the opportunity of making a bid. In this way, STC was able to examine all available bids and explore all possibilities. This could not have been possible in a tender system.

(ii) Another advantage, in operating the bid system was the fast communication with the Head Office and amongst themselves on the part of STC's chain of foreign offices in the main sugar markets, viz. London, Paris and New York. The constant presence of our foreign offices in principal sugar markets enabled the Corporation to take maximum advantage of the market situation at any particular point of time.

Concerning sale of sugar by the STC, M/s Czarnikow Ltd., London commented as follows in their 'Sugar Review' 1175 of 18-4-1974 :

> 'A new development this week has been the return of India to the market but this time with a new selling procedure. Hitherto India has not been prepared to sell sugar except at open tender. The administrative advantage of this method can be readily understood, but it is often not the most satisfactory way to sell sugar. The Indian

authorities have now decided to change their arrangements and the State Trading Corporation is prepared to consider bids for sugar to be shipped to the world market at prices not below the level obtained at the tender held at the beginning of this month'.

In all its commercial transactions generally STC is required by Government to act according to its best commercial judgement. In case of exports of sugar, the above advice was reiterated at a meeting held in the Department of Food when the exports of sugar were transferred to STC. There was no specific advice from Government that in its sugar sales STC should follow the 'open tender system'."

C. Sales to the United States of America under the U.S. Sugar Act.

2.33. According to the Audit paragraph, while (prior to the transfer of work to the State Trading Corporation) the Department of Food had all along finalised contracts for sale of raw sugar under the U.S. Sugar Act at prices determined on the average of the prices of Spot Contract No. 10 published by the New York Coffee and Sugar Exchange for the period from March and September/October of that year plus a fixed premium, all the sales effected by the State Trading Corporation were below the domestic quotations (the total amount less being US dollars 27,78,526 equivalent to Rs. 2.23 crores). Since this appeared to indicate that the export strategy adopted by the State Trading Corporation was not sound, the Committee desired to know the circumstances in which the Corporation had not availed of the then ruling higher prices of the Spot No. 10 quotations. The Chairman of the State Trading Corporation stated in evidence :

"You are referring to the sale of raw sugar to the USA under the US Sugar Act terms and reference is also made to New York No. 10 contract. To arrive at the FOB Indian price, you have to make certain deductions in freight and duty and factors like that. The Ministry of Food previously when they sold sugar to the USA, they sold it on the US 10 contract plus some premium and minus freight and other expenses to arrive at the FOB Indian price. If you look at the prices which we have realised, it will show that we also got premiums on our sale prices, having sold sugar at 437-435 dollars per metric tonne and if we make the same computation as made by others, then we got a premium of 10.19 dollars per tonne on the sale made by us on 24 May, 62.66 dollars on the sale made by us on the 28 May and 20.55 dollars and 56.40 dollars and 54.04 dollars premium was received by us on the sales made on 31 May. These sales combined came to a total of 75,000 tonnes and that is what we were allowed to sell to USA."

laborating further, the witness stated :

"The sugar market, if I may say, has been rather speculative in the last 2-3 years and the prices have gone up and down 2-3 times in the period of the last 2-3 years. It was something like £300 a tonne before January 1974 and then it went down to 230-240 pounds in April and May 1974. Then we were selling sugar at £300 in August 1974. This particular lot of which we are talking about was under the U.S. terms. If you look at the New York No. 10 quotations in May, the July futures quotations were substantially higher as compared to the future quotations for September and

November. This would give an impression that the market was likely to go downwards rather than upwards later in the year."

2.34. On the Committee drawing attention in this connection to the fact that while the prices obtained by the State Trading Corporation for sales of raw sugar effected in May 1974 worked out to only 22.58 cents and 22.49 cents per pound c.i.f. U.S. port duty paid delivered basis, the No. 10 spot quotation on 15 May 1974 was 23.25 cents per pound and 24.25 cents per pound from 24 to 31 May 1974 and enquiring whether this did not indicate that the prices obtained by the Corporation were less than the prevailing prices in the U.S. domestic market, the Chairman of the State Trading Corporation replied :

"I think there is some slight difference in spot quotations and the future quotations. It is true that spot quotations--New York No. 10 Contract—did rise from 20.50 cents to 24.50 cents, but the markets for the future months in May were substantially lower."

He added :

"New York No. 10 price as I said is meant for c.i.f. sales duty paid for arrival in the United States. Normaly the sugar into the United States comes from the nearby Latin American countries from where the time of arrival is much shorter. The time of arrival from India is longer. If we look to the quotations and translate them into the date of arrival, there is a very big difference in the spot and future prices. But having done the conversion we believed that we achieved a substantial premium over the New York No. 10 price."

Clarifying, at the Committee's instance, the position further, the witness stated :

"In regard to the figures that I have about the Food Department sales, the prices are different because sales were made at different times. As far as our sales are concerned, what the Audit have done is that they have taken the spot prices ruling in New York during the month of May even for arrivals in June, July, August or subsequent months depending on the shipment terms of each contract. If you take the New York No. 10 contract price for the future months during which the sugar would arrive, then we have commanded premia between 10 to 60 dollars per tonne on these transactions."

2.35. In view of the fact that the Audit paragraph appeared to indicate that the procedure adopted earlier in this regard by the Department of Food had been more advantageous to the country, the Committee desired to know to the correct factual position in this regard. The Chairman of the State Trading Corporation stated in evidence :

"The only difference in the method of sale followed by the Department of Food and ours was that they used to sell sugar by calling for tenders. That was the only difference.

As far as the difference between the spots and the future prices are concerned, in all the terminal markets in London, New York and places like that, there are two kinds of quotations. One is the spot quotation, i.e., the price for ready delivery on the spot; the

other is the price for delivery after several months like March to May, September to December etc. When the market is rising, the futures are higher than the spot quotation and when the market is falling, the futures tend to be lower than the spots. That is the difference between the spot and the future quotations.

What I was trying to explain to you was that if you looked at the quotations for the month of May in the New York No. 10 which is for sales of raw sugar to the United States, you would see that the quotations in the New York No. 10 contract were higher for spot delivery which was, at that time 24 and odd cents and were lower for deliveries in future months. That is what I had tried to convey to you."

Since the contracts had been finalised in May 1974 itself, the Committee asked whether, instead of comparing the prices obtaining then against the prices prevailing at a future date, it would not be more correct to compare the prices obtained by the State Trading Corporation with the actual spot quotations obtaining in New York in May itself.

The witness replied :

"The sales that we were making at that time were all of white sugar shipped to destinations in the Middle East, whereas the quantity delivered to the United States against the New York No. 10 contract which we are talking about was for a specific tonnage earmarked for the United States against India's quota for that country. They were two-totally different kinds of sales."

2.36. An explanatory note furnished subsequently at the Committee's instance, by the Ministry of Commerce/State Trading Corporation on spot and future quotations and the circumstances in which the sales are concluded on the basis of spot prices and futures is reproduced below :

"Spot quotation is the price which the Sugar Terminal Markets in London, New York and Paris announced each day. This announcement is made on the basis of what the Committee of members/brokers in each Terminal Market considers as a reasonable value for sugar on that day, having regard to the trading on the previous day and their own judgment of market trends.

While the spot price is fixed for the day, the 'futures' quotations fluctuate throughout the day depending upon the progress of the market and as transactions take place in the terminal markets.

Transactions in terminal markets are paper transactions since the physical sugar is hardly ever delivered. Accounts are settled by payment of difference in the contracted price and the price ruling on the date of settlement.

For actual deliveries in international sales, the quotations 'spot' or 'futures'—are no doubt taken into account. The actual price at which a deal may be made could be higher or lower than the terminal market quotations depending upon a large number of factors including supply/demand position, crop and weather forecasts in different countries and urgency of requirements and quality and period of delivery.

Indian sugar receives a varying rate of premium depending upon likely orders and demand from particular regions. Thus a physical sale is determined by various factors in addition to the 'spot' price or 'futures' quotations."

2.37. The following statement, furnished at the Committee's instance by the Ministry of Commerce/State Trading Corporation, indicates the prices actually obtained by the Corporation for raw sugar sold under the US statutory quota during the relevant period and the then prevailing US Domestic Spot prices for prompt deliveries :

Sl.No.	Date of Sale	Buyer	Qty. ± 5%(MT)	Shipment period	Price FOBs Indian ports	(US $ PMT) Converted to CIF, USA duty paid	NY Contract No. 10 spot on dates of sales (¢ per lb.)	Quantity shipped (MT)
1.	24-5-74	Amerop@	16000	June, 74	429+8* =437	505·80	24·25 (US $534·62 PMT)	15875
2.	24-5-74	Amerop@	16000	June, 74	429+8 =437	505·80	Do.	16258
3.	24-5-74**	C. Czarnikow	12000-14000	15-6-74 to 15-7-74	429+8* =437	505·80	Do.	14700
4.	31-5-74	Farrman	14000	July, 74	429+8* =437	505·80	Do.	13899
5.	31-5-74	Farrman	10000	Aug' 74	427+8* =435	503·78	Do.	14000
			3500 min/max	Aug' 74	429+8* =437	505·80		
								74732

*8/- per MT represent the estimated additional advantage due to improved payment terms.

**Contract signed on 28-5-74.

@As desired by the buyers, M/s Suere of Dennee, Paris, the contracts were signed with their sister concern, M/s. Amerop.

Note:— ¢ Not available

2.38. Asked whether the relevant sales (May 1974) had been concluded on the basis of spot or future quotations, the Ministry of Commerce/ State Trading Corporation replied :

> "Sales were made at a fixed price taking into account the 'future' quotations at the time."

The Ministry/Corporation further stated :

> "The question of alleged loss of Rs. 2.23 crores does not arise if sales are evaluated with comparable and relevant data. US Domestic Prices in terms of US Spot Contract No. 10 is a price ruling on a given date for prompt delivery. Sales made by STC on that date for delivery 3 months or 4 months later on should not be compared with 'spot' prices ruling on that date."

In another clarificatory note, the Ministry/Corporation have added :

> "It would not be correct to compare STC's sale prices for distant deliveries either with 'spot' terminal prices on dates of STC's sales, or with prices realised on those dates by other exporting countries for prompt deliveries. STC's sale prices could appropriately be compared with the corresponding terminal 'futures' quotations having regard to the expected time of arrival at US ports of shipments effected by STC.
>
> STC's sales of 75,000 tonnes of raw sugar to the USA were made during 24 to 31 May 1974, after STC received the clearance of the Food Department on the 17 May 1974. Contracts were concluded for shipments during June, July and August 1974, which would take about 8 weeks to arrive at US ports, *i.e.*, around August, September and October 1974 respectively. Accordingly, prices realised by STC should be compared with the futures quotations applicable to these latter months on the dates of contracting.
>
> STC had taken a decision to conclude sales on a fixed price basis in view of the bearish futures indication at that time. This sentiment was accentuated by the apprehended US long shoremen strike expected to start in September/October, 1974, and force majeure declared in India consequent upon the railway strike in May 1974."

2.39. Since it had been stated that the State Trading Corporation had obtained a premium on the US No. 10 Contracts in respect of the sales effected in May 1974, the Committee called for relevant statistical data in support of this contention. In a note, the Ministry of Commerce/State Trading Corporation stated :

> "A statement is attached which shows the prices realised by the STC for states of raw sugar to USA during the period 24 May to 31 May 1974 and the premium obtained by the STC amounted to US $ 22.98 lakhs approximately on the basis of New York Contract No. 10 future quotations on the dates of sale applicable to the period when the cargoes sold by STC were likely to arrive at US ports."

STC's SALES OF RAW SUGAR TO THE USA AND PREMIA EARNED (MAY 24 TO MAY 31, 1974)

Date of Sale	Buyer	Quantity contracted ±5%(MT)	Price FOB US$ MT	Shipment period	Quantity shipped (M/T)	NY Contract No. 10 futures on dates of sale for arrival time (¢ lb)	Equivalent FOB Port ¢ lb.	Indian Price $MT	Premium PMT $ Col.IV over Col. IX	Total Premium US $ lakhs.
I	II	III	IV	V	VI	VII	VIII	IX	X	XI
24-5-74	Amerop@	16,000	429+8=437*	June.	15,875	22·48	19·36	426·81	10·19	1·62
24-5-74	Amerop@	16,000	,,	,,	16,258	22·48	19·36	426·81	10·19	1·66
24-5-74**	C. Czarnikow Ltd.	12,000/14,000	,,	June/Jul.	14,700	20·10	16·98	374·34	62·66	9·21
31-5-74	Farr Man	14,000	,,	Jul.	13,899	22·01	18·89	416·45	20·55	2·86
31-5-74	Farr Man	10,000	427+8=435	Aug.	10,500	20·40	17·28	380·96	54·04	5·67
	(Min/max)	3,500	429+8=437	Aug.	3,500	20·40	17·28	380·96	56·04	1·96
		71,500/73,500			74,732					22·98

*Estimated advantage due to improved payment terms.

**Contract was signed on 28-5-1974.

@As desired by the buyers, M/s. Suere et Dennee, Paris, the contracts were signed with their sister concern M/s. Amerop.

Note:— ¢ Not available

2.40. The Committee enquired into the details of the prices obtained by the Corporation for Indian sugar in respect of actual sales for the months of April, May and June 1974 to USA under the US Sugar Act and those obtained by other sugar exporting countries during the same period. In a note furnished in this regard, the Ministry of Commerce/State Trading Corporation have stated :

> "No sales of Indian Raw Sugar to USA under the US Sugar Act were effected by the STC during April and June 1974. Contracts for export of raw sugar were concluded by STC during the period 24 to 31 May 1974 only. A comparative statement indicating the FOBs prices obtained for Indian raw sugar by the STC and those obtained by other sugar exporting countries during the same period, is enclosed. Comparison with STC's sales will not be correct on account of different periods of shipment. Indeed the three higher priced sales are all for immediate shipment or arrival.
>
> In a comparative study of this kind, it is necessary to keep in view the long voyage period from India to US ports are against other suppliers, the 'force majeure' conditions consequent upon railway strike in India in May 1974 and the threat of long shoremen strike around September/October 1974 in USA."

SALE OF RAW SUGAR TO USA BY STC AND OTHER INTERNATIONAL SALES DURING THE SAME PERIOD—24 TO 31 MAY 1974

STC's Sales					Other International Sales				
Date of Sale	Qty. +5% — (MT)	Shipment period	Price FOB (US$MT)	Converted to CIF,US Ports, Duty Paid	Date of Sale	Shipment period	Buyer	Qty. (MT)	Price (US Cents per lb)
May, 24	1600	June, 74	429+8* =437	505·80	May, 24	Mid-June arrival	Northern Refiner	6000	24·25 duty paid US NH ($534·62 PMT) Phillippine raws.
May, 24	16000	June, 74	429+8* =437	505·80	May, 24	June	New York Trade House	22000	US $ 505·731 PMT C&F Brazil raws.
May, 24@	12000-14000	15-6-74 15-7-74	429+8* =437	505·80	May, 24	Sept. 20/ Oct. 5	New York Trade House	10000	16946 F.A.S. ($373·59 PMT) Peru raws
May, 31	14000	July, 74	429+8* =437	505·80	May, 31	Second half June arrival	Northern Refiner	5000	24·50** ($540·13 PMT) Omnibus raws
May, 31	10000	Aug., 74	427+8* =435	503·78					
	3500 Min/Max	Aug., 74	429+8* =437	505·80					

*$8/- per MT represent the estimated additional advantage due to improved payment terms.

**Presumably C.I.F., duty paid. basis.

@Contract signed on 28-5-1974.

2.41. Referring to the Ministry's statement to Audit (December 1975) that there was "apprehension created in the minds of foreign buyers about India fulfilling its commitments on account of the *'Force Majeure'* (following the strike by Indian Railways) declared on 9 May 1974 by Department of Food in respect of sugar sold by it, "the Committee asked whether this could be considered a valid reason for the lower prices obtained even after the Railway strike ended on 28 May 1974. The Chairman of the State Trading Corporation replied in evidence :

> "This observation was made relating to the period May 1974 when we had the railway strike. Under the conditions of the US contract this had to be delivered before 31 of December."

He added :

> "It had happened at that particular time when the sales were made that reference were made to force majure conditions. As you know the market had been rising and falling all the time from January 1974 onwards. This tendency was also there in 1975 and 1976. But at the time the sales were concluded at the end of May we did achieve a premium on the US No. 10 contracts."

2.42. Though it has been contended by the State Trading Corporation that the sugar sales during May 1974 had been made at a fixed price after taking into account the 'futures' quotations at the time and that a substantial premium had been achieved on the US No. 10 Contracts, the Committee understood from recent reports (April 1977) appearing in certain sections of the press that illegations of widespread malpractices by the State Trading Corporation, most of which related to the exports of sugar, had been received from a number of sources including employees of the organisations and that the general thrust of these allegations was that many export deals were struck at rates below the international price, there were unnecessary or inflated payments of commissions to brokers, under-invoicing of exports with a kick-back from the buyer going into secret bank accounts. Several sugar deals were also reported to have been made at artificially depressed prices and re-negotiated to the detriment of the country. In fact, even as early as in June 1974, a correspondent of the 'Hindustan Times' had pointed out, *inter alia*, that apart from Government's inability to export sizeable quantities of sugar, it also failed to take advantage of the high international raw sugar prices which was about £ 274 per tonne based on London quotations in April 1974 and had come down to £ 210 by the time India finalised its export deals, which according to the correspondent, resulted in a loss of £ 64 per tonne or about Rs. 12 crores for every lakh tonnes of sugar exported.

The correspondent had gone on to observe :

> "A significant feature of the sugar export policy which contributed to the present dismal situation is the replacement of the Agriculture Ministry as the selling agency by the State Trading Corporation. The Ministry, which had been exporting sugar for the past 17 years, and had developed some expertise, sold sugar in April this year at a premium over the London price of about £ 50. Just when the Ministry was about to float a second tender, the STC came into the picture.
>
> The STC's premium in the first deal was only £ 36. It went down to £ 30 and £ 28 in subsequent transactions. The low

premium is mainly attributed to the STC's preference to sell sugar through private negotiations rather than through a public tender system which is the well recognised international trade practice and which has been followed hitherto by the Agriculture Ministry."

2.43. In this context, the following excerpts from the fortnightly newsletters published by a sugar broker of New York, Czarniknow-Rionda Company Inc. (CRCO), copies of which were made available to the Committee by the Ministry of Commerce/State Trading Corporation, are also relevant as they indicate the then prevailing market conditions and trends in the world sugar market :

April 10, 1974

The domestic raw market showed steady improvement for the period under review.

x x x x x x x x

The market's action in rising from its recent lows of 17.00 to the current19.00 level appears to stem from the realisation of the tightness of raw supplies in the second quarter.

x x x x x x x x

Spot quotations in the New York. London and Paris markets were as follows :

	N. Y. No. 11 ($ per lb.)	L.D.P. (£ per LT)	PARIS (FF per MT)
March 29	20·00	201·00	2,750
April 1	18·75	210·00	2,820
2	19·00	205·00	2,850
3	19·75	200·00	2,875
4	20·25	210·00	2,950
5	20·50	215·00	2,950
8	20·25	220·00	2,950
9	20·00	212·00	2,950
10	21·50	212·00	2,950

The New York future quotations advanced 252 points since Thursday, March 28, reaching 21.75 at the close today. July, September and October at 18.48, 16.57 and 15.50, respectively, were up 160, 131 and 113 points. 1975 quotations advanced 97 to 85 points with the lightly traded July 1975 month up six points. In the London Terminal, May fared less well than August—£ 213. Vs. £ 199—May on the day of our previous market letter an increase of £ 14. Vs. £ 183.10 for August, an advance of £ 16.85. Later deliveries gained £ 10.75 to 7.75. In the Paris Terminal, May and August were up about 200 Francs, later months about 50 to 75 Francs."

x x x x x x x x

On April 3, three cargoes of whites were sold by India in a tender: two cargoes to a French Trade House, at £ 259.15 LT FOBs and

one cargo to a London Trade House at £ 259.50. Each cargo is 11,000 tons with shipment to be made in April/May.

On the same date, Uruguay purchased 3,000 tons of Argentine raws for April/May shipment at about $ 494. MT C&F through the intermediary of a New York Trade House.

On April 5, a London Trade House purchased 50,000 tons of Thailand whites, for April/June shipment, at £ 182. MT FOBS.

On April 6 and 7, Iran purchased two cargoes of June arrival whites from a French Trade House at $ 649.95 MT CFFO.

x x x x x x x x

The beginning of sales tenders by India, which was feared by some quarters to have a bearish impact on the market, did not have this effect. For one thing, Indian crop outturn is likely to be less than originally hoped; for another, the seller is being cautious, particularly as they can now consider themselves the only major seller in the market outside traditional business, such as the expected Australian sales to Japan. The high spot prices paid indicate that the availability of sugar is far from sufficient to meet all requirements and that the expectation of lower prices in the next several months, as indicated by the futures market, may well be premature.

April 25, 1974

The firm tone which has returned to the domestic raw market seems to be a direct result of the realisation on the part of the trade in general of the tight supply/demand situation which has now become evident. Refiners, particularly in the Northeast have been forced to subsist on extremely low stocks and in several cases delays in vessels of 24 to 48 hours have put refiners close to a position of running out of sugar. The market's ability to sustain these levels and to show further improvement will be tight supply/demand situation which few observers now foresee—at least through June and into July. Meanwhile, the trade remains very much on a hand-to-mouth basis being forced to do so by a lack of plentiful supplies.

x x x x x x x x

Spot quotations in the three major exchanges were as follows :

	N.Y. No. 11 ($ per lb.)	L.D.P. (£ per L.T.)	PARIS (FF per MT)
April 11	21·75	223·00	2,950
15	22·25	Holiday	Holiday
16	22·00	230·00	2,965
17	23·00	230·00	2,9765
18	24·00	240·00	3,000
19	23·50	244·00	3,050
22	24·50	244·00	3,050
23	21·50	240·00	3,050
24	23·00	225·00	3,000
25	23.00	225.00	3,000

Futures quotations at the New York Coffee and Sugar Exchange advanced over the entire range of delivery months during the past two weeks. After reaching a record high of 24.70 on April 22, May declined, closing at 22.61 with a net gain of 86 points. July and September, however, registered solid gains of 295 and 244 points, respectively, while October advanced 236 points and the 1975 contracts from 272 points for March down to 68 points for September.

In the London Terminal, May and August delivery sugars reached £ 238.50 and £ 209.75, an increase of £ 24.50 and £ 26.60, respectively. October and December advanced £ 22.01 and £ 17.55 ever the two week period : 1975 delivers gained £ 15.75 to £ 10.00.

In Paris, white sugar for August delivery closed 190 French Francs higher than two weeks ago, while October was up 280 FF; December and January 265 and 275 FF, respectively.

x x x x x x x x

India was back in the market with a new selling system whereby the authorities entertained private bids instead of the usual open tenders. Under this new arrangement, on April 17, a New York Trade House acquired one cargo whites for June/July shipment at £ 266.00 MT FOBS. The next day, three cargoes for the same position were sold to a London Trade House at £ 268.00 per MT, and an additional cargo June/July shipment to a different London buyer on princing terms related to the L.D.P.

x x x x x x x x

On April 17, Lebanon was the buyer of two cargoes raws for May/July shipment : one from a French Trade House, at $ 591.40 per M.T. : the other from a local firm at $ 608.50 per M.T.

x x x x x x x x

On the same day, it was reported that Uruguay had secured 15.000/20.000 tons of Brazilian raws for second-half 1974 shipment. The terms of the transaction, done on a government-to-government basis were not disclosed.

x x x x x x x x

According to Cuban press reports, the 1973/74 sugar crop is approaching its conclusion. As of April 16, 36 mills terminated operations, leaving 107 still grinding. The government schedule calls for conclusion of the harvest by April 30, an unusually early date, to avoid the on coming rainy season. Details about the sugar production are not available.

News from Europe is not very encouraging with a prolonged lack of rain and frequent night frosts in many countries having a detrimental effect on beet seedlings. While it is too early in the season to draw any conclusion as to the final outcome of the forthcoming crop, attention must nevertheless be paid to the fact that a prolonged drought at this early stage of growth may have long lasting consequences.

The continued strength of the market is still the result of keen demand for actuals and tightness of supplies. Until such time when high prices will effectively discourage consumption and new supplies appear on the horizon, this strength will persist with only technical reaction from time to time.

May 9, 1974

Meanwhile, the raw market remains strong with the increasing realisation of a tight supply/demand balance in the second quarter which some observers now predict may well take place into, and possibly through, the third quarter. At the same time, both the raw and refined markets appear to be operating on hand-to-mouth basis with refiners apparently desirous of using their buying power on the acquisition of prompt raws which will keep refineries running.

x x x x x x x x

Spot quotations in the New York, London and Paris markets were as follows :

		N.Y. No. 11 ($ per lb.)	L.D.P. (£ per L.T.)	PARIS (FF per MT)
April	26	22·75	232·00	2,950
	29	23·00	237·00	3,000
	30	23·00	235·00	3,000
May	1	24·00	238·00	Holiday
	2	24·00	243·00	3,025
	3	25·00	247·00	3,075
	6	24·00	250·00	3,100
	7	24·00	243·00	3,000
	8	25·00	250·00	3,150
	9	25·25	255·00	3,150

In the New York No. 11 futures market, record high prices were reached on May 8 when the July 1974 contract traded at 25.15 per lb. Yesterday, prices eased off slightly closing the two-week period with substantial net gains ranging from 263 to 411 points right across the board. The May contract went off the board quickly, July closed at 24.50$—up 307 points, while September and October closed at 22.51$ and 21.41 $, respectively—up 341 and 355 points. The 1975 delivery months posted more impressive gains with January advancing 411 points to 19.51$, March and May 370 and 335 points, respectively, and July 1975—263 points, closing at 17.20$.

In London, the trend was similar : August at £ 244.25, was £ 34.50 higher than two weeks ago. October and December gained £ 41.09 and 43.95, respectively. Reflecting concern over the forthcoming European crop advances in the distant delivery months were more noticeable : January 1975 closed at £ 209.50, up £ 53.00, while May and August closed at £ 188.00 and £ 177.00 with a net gain of £ 41.00 and £ 39.50 respectively.

In the Paris Terminal, August through December advances were 225 FF to 475 FF. As in New York and London, January

1975 had the most impressive gains of 515 FF, while May advanced 460 FF from the level of two weeks ago.

x x x x x x x x

The Cuban crop is now in its closing stage. On May 3, the provinces of Las Villas and Matanzas completed their operations, achieving 85% of their potential rate of production fixed by the government. About 50 mills still active are expected to conclude grinding in a week or so.

European weather conditions have shown a slight improvement recently. The crisis, however, is not over as water supply continues to be on a low level and more rain is needed for a satisfactory development of the beet plants.

F.O. Licht, the German statistical organisation, published their second estimate of European sugar beet acreage for the 1974-75 crop. A summary compared with the last two-year acreage is given below in 1,000 hectares :

	1974 (2nd est.)	1973	1972
(EEC)	(1,580)	(1,565)	(1,472)
Total West Europe	2,201	2,117	2,031
Total East Europe	4,816	4,809	4,657
Total Europe	7,017	6,926	6,688

The major change from the first estimate is a decrease of 13,000 hectares in the USSR. This brings the Russian acreage 50,000 hectares below last year's level. Poland, on the other hand, was increased by 15,000 hectares, while the EEC was decreased by 11,000 hectares.

This reduction in beet area did not come as a surprise as it had been generally expected following reports of serious damages by adverse weather and need of resowing fields in certain areas. Its impact on the market, therefore, was limited. However, it has dimmed the hopes of a European bumper crop and a possible relief from the current tightness late in the year or early in 1975.

May 23, 1974

The domestic market continues to show signs of a tight supply/demand position, and the market was slightly tested this week, as with declining futures values, sellers of actuals stood their ground at 24.00. The market is expected to remain firm unless and until additional prompt supply can be found to relieve a situation in which refiners find themselves with very low raw stocks.

Free world market values retreated during the fortnight. These were the Spot quotations :

	N. Y. No. 11 ($ per lb.)	L.D.P. (£ per L. T.)	PARIS (FF per MT)
May 9	25·25	255·00	3,150
10	25·25	255·00	3,150
13	24·75	255·00	3,150
14	24·75	250·00	3,150
15	24·25	248·00	3,150
16	23·50	245·00	3,150
17	24·50	250·00	3,150
20	23·50	250·00	3,150
21	22·25	240·00	3,100
22	22·00	234·00	3,150
23	22·00	234·00	Holiday

Future values in New York for the July, September and October deliveries declined by 236, 243 and 226 points to 22.14, 20.08 and 19.15, respectively. March and May 1975 dropped 175 and 160 points to 17.01$ and 15.80$ respectively. In London, August values declined by £ 26.25 to £ 217.50. March 1975 registered the biggest decline, £ 3.00 to £ 176.00 Paris was closed today but yesterday's close saw August 1974 at 2,824 Francs, 220 Francs below the May 9 quotation for the same contract. Changes for later deliveries were similar.

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On May 17, Sudan bought 10,000 tons of Omnibus from a French Trade House for May-mid-June delivery at $698.00 per metric ton CFFO. It is understood that sugar from the Chinese People's Republic will be delivered.

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The crop year's second major upward movement, which began late in March and had continued with only one significant set-back through the first ten days of May, was followed by an easing of values in the past several days. While it is, of course, true that no price more will continue without occasional corrections, the currrent decline appears to have occurred in a period when supplies are at their tightest. Even if one were to expect relief from the current shortage as a result of the European beet sugar crop, a hazardous position in view of the inauspicious start of the growing season in most countries there, the actual physical sugars to come from that source are still months away. Those months may well be times of trial even for the sugar economies of the exporting countries, not to speak of the importers. With Spot Prices continuing high at the time of the trend change, it would seem that, apart from the length of the sustained upward move and the normal seasonal expectation of lower prices (another hazardous view in these not very normal

times), other factors were at work. These factors are beyond the scope of the sugar market, having to do with general speculator sentiment, prices of other commodities, foreign exchange adjustments, inflationary pressures and, even more broadly, general economic and political uncertainties of various types. While it would be futile to argue whether one or another price level is the correct one under the current supply and demand conditions, it would seem to us that a major downward move in sugar values at this juncture is unlikely and not sustainable for any length of time.

June, 6, 1974

The Indian seller was also active and during the last ten days/two weeks three cargoes of sizes varying from 12,000 to 14,000 tons were sold for various June and July shipment positions to New York Trade Houses at a price of $ 429.00 per metric ton FOB stowed. Subsequently, another cargo of July was sold to yet another Trade House at the same price, together with one similar size cargo of August shipment raws at a price of $ 427.00 per MT FOBS. Three Colombian shippers combined to sell in tender to a New York Trade House 12,000 tons for first half August shipment at a price $ 494.00 per MT FOBS last Tuesday. On Wednesday, Belize sold in tender to a New York Trade House 2,500 tons, June shipment, raws at a price reported to be 22.72 FOBS and Salvador sellers similarly placed 4,000 tons, July/August shipment, with another Trade House at a reported price of 22.68 FOBS.

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Trading on the New York Coffee and Sugar Exchange No. 10 Contract generally followed the firmer lead of the actuals market with one brief period of decline, apparently brought about by a temporary weakness in world futures. However, for the period under review, gains of from 125 points in the near-July position to 290 points in the September position were registered.

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By far the most newsworthy item was the defeat of the Sugar Bill in the House of Representatives on Wednesday night.

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The raw market, which continued to act under the influence of a tight supply position on its own, was given additional impetus by the news of the failure of this Bill to be passed. The market's concern in this regard would appear to be the treatment by foreign suppliers of their 1974 quota balances in light of the possibility of no Sugar Act beyond this year. Meanwhile, the tightness in supply, which has been the keynote for the last month or so, continues with little apparent relief in sight even before the emergence of this new factor. Prices should, therefore, remain firm.

In the free world market, prices reversed sharply, resuming their upward trend.

Spot quotations in the three major markets were as follows :

	N. Y. No. 11 ($ per lb.)	L.D.P. (£ per L. T.)	PARIS (FF per MT)
May 23	22·00	234·00	Holiday
24	22·50	234·00	3,050
27	Holiday	Holiday	Holiday
28	21·50	232·00	3,000
29	22·00	228·00	3,000
30	22·75	235·00	3,000
31	23·50	235·00	3,000
June 3	24·25	240·00	3,000
4	24·00	246·00	3,100
5	24·50	248·00	3,100
6	25·25	250·00	3,100

In New York, futures quotations trading closed at 25.12, 22.92 and 21.87 for July, September and October 1974, advancing 298, 284 and 272 points, respectively. March and May 1975, at 18.62 and 17.80, were up in London, August 1974 showed the best gain —£ 27.50 over the quotation of two weeks ago, closing at £ 245.00. Later months showed progressively smaller gains with March and May 1975, at £ 199.50 and 183.56, gaining £ 18.50 and £ 18.00, respectively. In Paris, August 1974 went up 2,824 Francs on May 22 to 3,163.

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On June 3, Venezuela purchased 25,000 tons of whites and 25,000 tons of raws, for prompt shipment, at $ 675 and $ 565 MT CFFO, respectively, from a New York Trade House. Argentine sugar is expected to be delivered against both contracts. On the same date, Iran returned to the market, purchasing one cargo of whites for August/first-half September shipment at $ 675.50 MT CFFO, from a New York Trade House through the intermediary of a Japanese Trading Firm and at least two, but likely three, cargoes of whites for August/September shipment at $ 695.50 MT CFFO.

On June 4, Syria agreed to pay a Paris Trade House $ 680. MT CFFO for whites. One cargo is for June/July shipment and the other for October shipment.

On June 5, a London Trade House sold Sudan a cargo of whites for August/September shipment at $ 670. MT CFFO; another London Trade House sold a June/early July shipment at $ 692 MT CFFO and still another London Trade House a cargo for shipment by July 25 at $ 684 MT CFFO.

Also, on June 5, the New York subsidiary of a Paris Trade House won a tender in the Dominican Republic, paying 19.515 per lb. for March 1975 shipment, about 150 points above the equivalent New York quotation on that day.

Today, a New York Trade House bought 11,000 tons of whites for August shipment at £ 275 MT FOBS.

During the period, India sold several other cargoes of whites : 11,000 to a London Trade House at $ 259.50 MT FOBS, 22,000 tons to a Paris Trade House at £ 259.15 MT FOBS; 33,000 MT to the same Trade House at £ 270 FOBS; 11,000 to a New York Trade House at £ 266.10 MT FOBS; 11,000 tons to the London affiliate of a New York Trade House at average pricing terms and 22,000 tons to a company not fully identified, half at £ 272 and half at £ 273 MT FOBS. The Chinese People's Republic is reported to have placed a cargo of whites in Sudan in a government-to-government transaction at $ 270.00.

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The statistical firm of F.O. Licht published their second estimate of world sugar balance 1973/74 shown below, with the comparison figures for the three preceding years :

WORLD SUGAR BALANCE (1000 MTRV)

	1973-74	1972-73	1971-72	1970-71
Production	81021	77173	73852	72771
Imports	25286	24405	24517	23503
Initial stocks	15794	17157	19081	21362
Total	122101	118735	117450	117636
Final Stocks	15690	15794	17157	19081
Deliveries	106411	102941	100293	98555
Exports	25343	24842	24188	24037
Consumption	81068	78099	76105	74518
Production ± tons	+3848	+3321	+1081	—1575
Percent	+4·99	+4·50	+1·49	—2·12
Consumption ± tons	+2969	+1994	+1587	+2295
Percent	+3·80	+2·62	+2·13	+3·18
Final stocks, per cent of consumption	19·35	20·22	22·54	25·61

(a) Estimate

The weakness of the previous two weeks, caused to a large extent by factors outside the sugar supply/demand situation, was followed by a revival of the previous upward trend as good prices continue to be paid for actuals. The Licht report mentioned above, has been interpreted as bullish. European crops look unpromising and, as of today, the action of the U.S. House of Representatives raises the possibility of the American market having to obtain supplies next year in competition with the current free world market importers.

June 20, 1974

Trading on the New York Coffee and Sugar Exchange No. 10 Contract followed the course of the raw market. The nearby July position ceased trading with the close on Monday and resulted in a tender by one trade house to three other trade houses of 14,750 tons of Peruvian raw sugar for a very late July arrival. Thereafter, the September position followed the trend of No. 11 futures rather closely as arbitrage selling of September No. 10 against purchases of September No. 11 appeared to hold the September No. 10 contract down. For the period under review, price advances from 85 points in September to 100 points in November were registered.

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The rise in the Spot Price from 25.00 two weeks ago to 27.25 today reflected the refiners general concern for melt supplies during the summer months. This week a softer world futures market appears to have brought about a psychological reaction of refiners' buyers despite the expressed need by many of still having to buy for July and August arrival sugar.

Free world market values displayed the volatility that one must associate with the prevailing high price levels. Substantial gains and losses followed each other in quick succession.

Spot quotations in the three major markets were as follows :

	N.Y. No. 11 ($ per lb.)	L.D.P. (£ per L. T.)	PARIS (FF per MT)
June 6	25·25	250·00	3,100
7	26·00	254·00	3,150
10	25·00	262·00	3,200
11	24·50	254·00	3,200
12	23·50	244·00	3,200
13	22·25	242·00	3,200
14	23·25	242·00	3,200
17	24·50	247·00	3,250
18	23·25	247·00	3,250
19	23·00	242·00	3,250
20	22·75	234·00	3,200

Despite an advance today of around 100 points, the market closed at 23.54 in July, 158 points down, September at 22.18, 74 points down and October at 20.95, 92 points down, compared with two week ago levels. The March and May 1975 quotations closed only 17 and 5 points lower, respectively, while late 1975 contracts gained 60 to 79 points compared with two weeks ago. In the London Terminal closing, prices were down £ 17.25 to £227.25, later quotations lost £ 13.00 to £ 10.00. In the Paris white sugar market, the nearest contract, August, advanced 87 Francs to

FF 3,250, October remained steady at around 2,930 while December dropped FF 126 to FF 2,750 and 1975 contracts registered declines of 100 to 40 Francs.

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The market continues to be tense with each development causing major movements in price, a condition which is likely to persist for a few weeks at the least before more becomes known of 1974/75 production and the extent of the requirements already covered of major buyers and sellers, and thus of their relative strengths.

2.44. The following tables,* compiled from the CRCO newsletters referred to above, indicate the behaviour of 'futures' quotations on the New York Coffee and Sugar Exchange (No. 10 contract) :

POSITION AS ON 10 APRIL 1974 :

Month	Closing April 10	Volume March 29 April 10	Open Interest April 10
No. 10 Contract			
May	19·13/19·20	40,650 tons	48,300 tons
July	17·45/17·50	4,150	16,100
September	16·10 Off.	2,800	10,000

POSITION AS ON 25 APRIL 1974 :

Month	Closing April 25	Volume April 11—25	Open Interest April 25
No. 10 Contract			
July	19·15/40	10,900 tons	18,600 tons
September	17·00/20	3,250	11,650

*Not Vetted in Audit.

POSITION AS ON 9 MAY 1974 :

Month	Closing May 9	Volume April 26 – May 9	Open Interest May 9
No. 10 Contract			
July	22·50-55 T	47,050 tons	37,300 tons
September	19·35/50	16,800	21,300
November	17·50/18·00	3,050	1,550

POSITION AS ON 23 MAY 1974 :

Month	Closing May 23	Volume May 10—23	Open Interest May 23
No. 10 Contract			
July	23·75—94 T	76,950 tons	42,200 tons
September	20·75 Off.	44,100	50,400
November	18·25 Off.	2,350	4,750

POSITION AS ON 6 JUNE 1974 :

Month	Closing June 6	Volume May 24— June 6	Open Interest June 6
No. 10 *Contract*			
July	25·20/25	62,750 tons	30,650 tons
August	24·60/25·00	2,500	2,500
September	23·90 B	20,300	60,400
November	21·00 Off.	5,150	8,250

POSITION AS ON 20 JUNE 1974 :

Month	Closing June 20	Volume June 7—20	Open Intrerest June 20
No. 10 *Contract*			
September	24·75 T	69,050 tons	90,400 tons
November	22·00/22·20	11,000	17,200
March	20·10 N	50	50

2.45. The Audit paragraph also points out that against its offers for sale, the State Trading Corporation also received offers from three reputed trade houses for the total quantity on the average pricing pattern which, if accepted, would have given an additional price advantage of Rs. 12.46 crores to Government. The Committee were informed by Audit that the Ministry of Commerce had stated (December 1975) in this context as follows :

> "Since the bids on price fixation basis for June shipment were based on average of New York No. 10 spot for distant months like August or September or the average from 1 June to 31 October 1974 these were left out of account on the reports that prices were likely to fall in future."

2.46. Asked to indicate the details of the offers received from these three trade houses, the Ministry of Commerce/State Trading Corporation, in a note, replied :

> "Details of the three bids on the average pricing pattern received on 23-5-1974 from (i) M/s. Czarnikow Rionda, New York, (ii) M/s. Golodetz New York and (iii) M/s. Cargill, New York, are as follows :

Name of Party	Quantity (MT)	Shipment period	Pricing proposals
1. Czarnikow Rionda	12500 13100	June July	Simple average of spot No. 10 for one month following the month of shipment plus 15 cents per 100 lbs. premium. Duty and other expenses to the account of seller.

Name of Party	Quantity (MT)	Shipment period	Pricing proposals
2. Golodetz	One or two lots of 12,500/ 13,100	June & July	Simple average from 1-6-74 to 31-10-74 plus 15 cents per 100 lbs. premium duty and other expenses to Seller's account.
Cargill	First at ternative 12500	June	Price August average of No. 10 spot plus 8·5 cents per 100 lbs. CIF duty paid alternatively, same average and premium but less 3·12 cents per lb. to give FOBS Bombay price.
(Cargill's second alternative)	13100	June ex-Kandla	Price August average No. 10 spot plus 8·5 cents per 100 lbs. CIF duty paid, alternatively same average and premium but less 3·33 cents per lb. to give FOBS Kandla price".

2.47. The Committee enquired into the reasons for not accepting these offers which would have given considerable price advantage to Government. The Chairman of the State Trading Corporation replied in evidence :

> "The sales that were made to the two parties in the U.S. were also reputed parties. It is not as if we accepted bids from unreputable parties. The difference between the offers which we accepted and the offer which we did not accept was only in the basis of the offers. One offer gave us a fixed price at which we would get payment per metric ton. The other offer said that they would pay at the market rates ruling in the month or one month after the month of shipment. It was this point which was not clear as to what the actual price would be in the month after the month of shipment. It could have gone down by 15 pounds or it could have gone up by 15 pounds. Even so it did go up. At the time when we took the decision the price came to 436 dollars per m.t. The margin of profit in the case of this sugar sale was big and the offers had come from reputable houses."

In a note furnished subsequently in this regard, the Ministry of Commerce/ State Trading Corporation have stated :

> "The bids received from the three parties on the basis of average pricing pattern brought out the following factors :
>
> (i) the first bid proposed a simple average of the price one month following the shipments plus a premium :
>
> (ii) the second party increased the range of the period over which the average price was proposed to be spread;
>
> (iii) the third party gave a bid for June shipment but with pricing to be based on August average *i.e.* two months later and the premium offered was lower by almost 40% than the premium offered by the other two.

In other words, the cautious approach of the second bidder in enlarging the span of the pricing period and the lower premium of the third bidder reflected a bearish trend in the market.

In the face of the above data, the commercial judgment of the STC was that it might be better for them to sell the cargoes on a fixed price basis straightaway taking the maximum advantage of the market as it offered itself at that time when the sales were concluded rather than to take a speculative view of what might happen to the market subsequently. Besides, the prices realised showed a sizeable profit."

2.48. Since the Ministry of Commerce had informed Audit (December 1975) that these three bids had been "left out of account on the reports that prices were likely to fall," the Committee desired to know from which source the State Trading Corporation had received reports that the price of sugar was likely to fall and how it had satisfied itself about the correctness of these reports which ultimately proved to be wrong as the international prices of sugar started rising sharply from the middle of July 1974. In a note, the Ministry of Commerce/State Trading Corporation stated :

"Sales of raw sugar to the USA were made by the STC during the last week of May 1974. The quotations in the London Terminal Market had been rising since December 1973 and the average LDP for that month was £132.59. The monthly averages of LDP rose steadily and reached £224.45 for April 1974 as compared to £91.89 for April 1973.

Since the prices of sugar had reached an abnormally high level, as compared to the previous year, there was a widespread feeling in the trade that such high levels could not be maintained for long. The Daily Financial and Commercial Service of the Press Trust of India carried, *inter alia* the following report on 9-5-1974 :

'Now there is strong evidence of a rush to ship to the US market because of the strong price action and speculation that US prices may not be maintained at current levels later in the year'.

On 22-5-1974, the Press Trust of India again reported :

'The London Daily Sugar price was lower on tone to 240.00 sterling per long ton, a drop of 10.00 sterling.

Terminal values fall away fairly rapidly under moderate tired long liquidation, despite the constructive price paid at the Turkish tender, and the first five market positions hit limit down before recovering intermittently on what appeared to be hedge covering.

The market, according to a number of sources, seems to be somewhat over-bought and sentiment initially was felt to reflect rumours of Queensland offers to Japan of some 200,000 tonnes raw this morning, which were apparently turned down'.

During the 9 to the 23 May 1974, the LDP and the Spot Quotations in the Paris Market as well as the New York No. 11

decreased steadily as would be seen from the following figures :

		N.Y. No. 11 (cent per lb.)	L.D.P. (£ per LT)	PARIS (FF per MT)
May	9	25·25	255·00	3,150
	10	25·25	255·00	3,150
	13	24·75	255·00	3,150
	14	24·75	250·00	3,150
	15	24·25	248·00	3,150
	16	23·50	245·00	3,150
	17	24·50	250·00	3,150
	20	23·50	250·00	3,150
	21	22·25	240·00	3,100
	22	22·00	234·00	3,050
	23	22·00	234·00	Holiday

On the 31 May 1974, M/s ED&F Man, London, one of the leading international sugar dealers stated in their newsletter's Sugar Situation' as follows :

> 'The charts suggest that the market is now in a serious down-trend and it will be interesting to see over the coming months, with the reduction of speculative participation at last, whether prices can digest the final buyer's support at present levels and move towards pre-energy crises levels once more'.

The STC had also countenanced a lull in the market. After the sales made on the 17 and the 18 April 1974 the established sugar operators had practically withdrawn from the market. In response to several invitations to bid they had offered relatively low prices. This lull in sales lasted for almost 2½ months—from 19 April to the 3 July 1974.

Against the above background there were other commentators who were of the opposite view that the sugar market would remain firm for some months to come. There was a good deal of speculation as well about the prospects of the European beet crop.

In a commodity market, subject to complex influences of variable nature, judgments of different commentators can be proved right or wrong only after the event. It is, therefore, extremely difficult for one to satisfy oneself about the correctness or otherwise of conflicting market reports. Equally it is not possible to form a correct assessment when a rising market will start taking a dip.

Nevertheless, a view had to be taken of the market according to one's best judgement. The STC in the context of the above factors came to the conclusion that the international sugar market could enter a period of lower price levels from the earlier high levels."

2.49. Asked whether any sales had been effected on the average pricing pattern and, if so, what was their outcome, the Ministry/Corporation, in a note* replied :

> "The STC had made only one sale on 17.4.1974 on the average pricing pattern as detailed below :
>
> Buyer : .. .. M/s Golodetz Inc. New York.
> Quantity : .. .. .. 11,000 MT ± 10% buyers' option.
> Shipment period : .. .. .. June 15/July 1974.
>
> FOB Price : Simple average of the LDP quoted during 1/15 July 1974 (both days inclusive) plus a premium of £54 per L/T.

The price ultimately realise on the above sale was £ Stg. 285.07 per MT FOBs."

2.50. The Committee desired to know what arrangements were available for the regular collection and collation of intelligence regarding world market conditions and trends. The Food Secretary stated in evidence :

> "So far as information from foreign countries is concerned, there is, first of all, the international sugar organisation which gives a broad picture of the demand and supply position and there are reputed firms internationally known who send this information. Besides, the STC has its offices in some of the important countries abroad where they have the information and all these informations are pooled with the STC. Then the STC makes the market intelligence based on all this information available with them."

In a note furnished subsequently in this regard, the Ministry of Commerce/ State Trading Corporation have stated :

> "STC collects and collates market intelligence from abroad through a variety of sources : On a daily basis, price information and market intelligence reports are received by telex from foreign offices particularly London, Paris and New York as well as from major trading houses; flashes on opening and closing quotations at the terminal markets, particularly London, are also received. Besides, world market intelligence reports by Samachar on Sugar, oils, rubber, wool, and silver are also received daily. These form the basis of notes produced by the Management Services Division (MSD) on certain commodities such as sugar, wool and more recently on rubber.
>
> In addition, weekly and monthly reports and a wide range of publications carrying commodity and market information of a general and specific nature are received regularly. On the basis of the world price data available for sugar for the last several years, MSD undertook a study on the seasonal behaviour of prices in the international market."

2.51. Asked whether of the Indian embassies abroad and of the Commercial Counsellors and Attaches were not utilised for this purpose, the Secretary, Foreign Trade replied in evidence :

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*Not fully Vetted in Audit.

"There are three principal markets in the West for sale of sugar —Paris, London and New York. In all these places the STC has its offices. The marketing information on sugar has been received by the STC from its own offices from these three places. STC did not utilise the services of the commercial representatives because they had their foreign offices and they were constantly in touch with their own foreign offices on trade matters."

To another question whether this could be considered satisfactory, the witness replied :

"Certainly not. In this particular case there were rapid fluctuations. It is possible that STC could have had reliable information only from its own offices. We are in touch with the commercial establishments. In this particular case, when they had to decide on sale, they primarily depended upon the information which they could get on a daily basis from their own offices abroad."

He added :

"The Embassies and Commercial representatives have been fully involved in other negotiations. I fully accept the fact that STC should utilise not merely the services of its own branches but also avail of the facilities and information available with our Embassies and commercial establishments and I am sure they are using them wherever it is possible."

Asked, therefore, to indicate the coordination that existed between the Corporation's foreign offices and the Indian Trade Missions, Commercial Counsellors, Embassies and other agencies entrusted with the collection of market intelligence, the Ministry of Commerce/ State Trading Corporation, in a note, replied :

"STC has 21 foreign offices located in the important commercial centres abroad.

Managers of STC's foreign offices in East European countries apart from serving as STC's trading contact points, also serve as Government of India's trade representatives in these countries wherever necessary.

In other countries, STC's foreign branch remain in continuous contact to keep close liaison with the Indian commercial counsellors in Embassies and High Commissions of India. This contact enables STC managers to secure relevant information from time to time on an as required basis; it also gives them an opportunity for exchange of information regarding STC's operations and securing their intervention in conclusion of business wherever necessary.

In countries and areas in which STC does not have foreign branches, direct contact is maintained with the Indian trade representatives who are kept fully informed of trade matters handled by the STC.

We send copies of Interop Weekly Letters to Indian Commercial Representatives in countries/cities where STC offices are not located.

As and when necessary communications are exchanged frequently between Embassies and STC offices on specific matters."

2.52. In reply to another question whether it was a fact that only comparatively junior officers with limited expertise and experience were posted in the Corporation's foreign offices, the Chairman of the Corporation stated in evidence :

"Wherever we find that an office has to do a lot of business we try to put the best man available for that particular position."

He added :

"I wish to submit that our branch officers do their duty very much in the interest of the STC and also Government. It would be wrong to say that our managers are doing anything wrong."

2.53. The Committee desired to know whether the Government representatives on the Board of State Trading Corporation had adversely commented on these transactions of the Corporation referred to in the Audit paragraph. The Chairman of the Corporation stated in evidence :

"To the best of our knowledge, there was no adverse comment on the U.S. No. 10 contract sales made by us to the USA. This is what we are talking about.

As regards the other contracts, we are continuously having a dialogue with the directors on the board-full-time directors of the company—as well as the nominees of the ministries of Commerce and Finance. But, if I may refer to the sale made to the U.S. that we are discussing, it was decided by the Board at its meeting held on 29th of June; the Director concerned got the post-facto approval of the Board for the sale of 0.15 lakh tonnes of sugar to U.S. The price of sugar was 428 U.S. dollars FOBS per metric ton, the total value being Rs. 25.35 crores. In fact, if I may enlarge on this a little bit, we improved upon the payment terms; under this contract we would have normally received 95% of the value some 50/60 days after shipment whereas we actually received 98% of the value at the time of shipment, which gave an advantage of some $ 8 per M/T."

D. *Sale of white sugar*

2.54. The Audit paragraph points out that while the *f.o.b* prices obtained for Indian white sugar, during 17 April 1974 to 16 July 1974, were substantially higher (not less than £ 20 per tonne) than the London Daily Prices for raw sugar (*c.i.f.* Caribbean ports), during the period from 22 July 1974 to 23 September 1974, the *f.o.b.* prices obtained for Indian white sugar were on three occasions very slightly higher, on two occasions equal to it and on the four remaining occasions were, in fact, lower than the London Daily Prices for raw sugar. Besides, between 16 July 1974 and 23 September 1974, while the London Daily Prices (*c.i.f.* Caribbean ports) rose by 44 per cent from £ 250 to £ 360 per ton, the *f.o.b.* price for Indian white sugar rose only by about 26 per cent from £ 270 to £ 341 per tonne. Explaining, at the Committee's instance, the reasons for selling sugar at lower prices during July-September 1974, the Chairman of the State Trading Corporation stated in evidence :

"If I may answer it, there are certain factors. (1) You have to take the market position on the date you receive an offer. You can either accept it or reject it or you can make some counter offer. (2) You have to have some kind of a programme. It is not that you sell a certain quantity in a particular quarter instead of some other quarter only in the hope that you will get some benefit. You cannot pile up the entire quantity of sugar in the hope that instead of selling it in a particular month you will sell it in some other month and thereby get double the price. We study the quotations. With hindsight you can tell that if you had done this thing in a particular month, you would have got this much of price or if you had done that thing three months later you would have got this much of price and so on. But if that increase does not come and the fall comes, then you will have exactly the opposite results. In other words, you have to take a view on the given date. (3) There are also physical constraints and large quantities cannot be accumulated and shipped at one time. Sales are not made like that; it can be made only when a buyer comes. We have to appreciate that Indian sugar goes mainly to some of our neighbouring countries. We can sell our sugar to Iran, Sudan, Egypt and Indonesia and some Gulf countries. For example, Saudi Arabia does not buy our sugar. We had some difficulty in selling sugar to Iraq. We could only sell sugar to them in one lot on a trial basis. London Market shows a particular quotation. New York Market shows another particular quotation. It does not necessarily mean that sale can be made there and then at that price. It is very easy to take a view that after six months we will get a particular price. The market has been rising and falling. The danger of the market falling has also to be borne in mind. When the market has substantially fallen, it is very difficult to tell at which point the market will again rise."

He added :

"They are very big markets and transactions take place there from all over the world. There, dealers buy and sell sugar on paper and pay the difference, but the physical sugar does not change hands. It is all on paper. There must be a relationship between the price that we receive for our sugar and the price that is quoted there, but that relationship is not a fixed one. We have to take London prices with the demand specifically for Indian sugar at a particular moment."

2.55. Asked whether the prices quoted on the London market were not the barometers of the market conditions, the witness replied :

"As I said, the prices do vary at different points of time. I may put it slightly differently which may give the Committee a better idea. One possible criterion may be to compare what other countries have got at the same time. The hon. Member is absolutely correct, compared to April, the market did rise in August and September. But we had to sell every month to keep up our programme. If we make a comparison of our sales with sales made by other countries, you will find that our prices compare favourably."

2.56. Experts from the Czarnikov-Rionda Co. Inc., newsletter dated July 1974, which are relevant in this connection reproduced below :

"Market fluctuations left world sugar values in the same general area in which they were three weeks ago.

Spot quotations of the three international exchanges were as follows :

	N. Y. No. 11 ($ per lb.)	L.D.P. (£ per L. T.)	PARIS (F.F. per MT)
June 20	22·75	234·00	3,200
21	23·25	240·00	3,275
24	21·75	235·00	3,225
25	22·40	230·00	3,225
26	22·50	232·00	3,300
27	23·50	232·00	3,300
28	23·00	234·00	3,300
July 1	23·00	232·00	3,250
2	22·50	232·00	3,250
3	22·50	232·00	3,250
4	H	233·00	3,250
5	22·75	235·00	3,275
8	23·00	235·00	3,275
9	22·75	235·00	3,200
10	23·00	235·00	3,200
11	23·25	240·00	3,200

Futures quotations in New York moved sideways in a broad range; September 1974 at 22.70, closed 52 points higher than three weeks ago, October at 21.70, was up 75 points. March and May 1975 at 19.05 and 17.90, advanced 60 and 75 points respectively.

In London, the August contract gained £11.25, closing at £239.00, later deliveries were up £15.05 to £20.50. The nominal Caruk freight rate was reduced from £20.00 to £19.00 on June 26 and to £18.00 on July Paris values were up around 100 French Francs per metric tone, with August 1974 at 3.150 and October at 3,032.

* * * * * * *

The European Common Market Commission has agreed on a plan which is said to be re-affirming the EEC's willingness to allow 1.4 million tons of raws from underdeveloped Commonwealth countries, but changing its policy on beet sugar production in the EEC, aiming to become a net exporter of sugar in the future.

The market in the past three weeks, though lacking direction, has shown strength at a time of the year when traditionally prices tend to ease. With carryover stocks at near minimum sustainable levels and the coming crop, notwithstanding some improvement in the outlook in some areas of Europe, appearing to be mediocre, continued nervousness about prices can be expected. Prices are high by historical standards and they could fall, in theory. In practice, the market sees little on the horizon to indicate that the supply situation is becoming less tight."

2.57. Since world prices of sugar apparently began to rise sharply from the middle of July 1974, the Committee desired to know why the State Trading Corporation had failed to avail of the rise in prices. In a note, the Ministry of Commerce/State Trading Corporation stated :

"The implication is that STC's f.o.b. realisation, which increased by 26% during the period in question, should have increased by 44% in line with LDP. It is submitted that an exactly proportionate rise or fall between the quotations of the Terminal Markets and physical transactions, is not actually obtained because of the following reasons :

(i) There is a marked difference between the quality of, and therefore the demand for, Indian sugar as against sugar of other origins. Indeed the rate of premium varies depending upon the demand for Indian sugar which is mainly restricted to the traditional markets in the Middle East, some African countries and other countries like Sri Lanka and Indonesia. Furthermore, there is resistance to Indian sugar in developed markets because of its uneven quality and outmoded packing in 100 kg. jute bags without polylining instead of 50 kg. polylined bags. Hence, depending upon the demand at any point in time for Indian sugar the rate of premium for Indian sugar varies and cannot strictly correspond to the actual premium commanded by other international suppliers.

(ii) STC continued sales of sugar during the period in question and the price realisation went up, along with the Terminal market quotations, from £ Stg. 270 on 16.7.74 to £ Stg. 341 on 23.9.74."

2.58. In a note furnished in reply to another question whether State Trading Corporation was aware that the outlook for the beet crop was not very promising and that the crop in United Kingdom was also expected to be bad on account of virus infections and, if so, why the Corporation had not taken advantage of these factors to obtain higher prices for Indian sugar, the Ministry of Commerce/State Trading Corporation have* stated :

"In June—August 1974, market reports had been commenting about prospects of beet crop in Europe and virus infection affecting the UK crop. Estimates of extent of damage to the crop and its actual size however differed from commentator to commentator. STC was aware of these developments and progressively realised better prices. The best price realised by STC in April 1974 was £ Stg. 272 per MT FOBS while it was £ Stg. 341 per MT FOBS in September 1974."

*Not fully Vetted in Audit.

E. *Rescinding of contract.*

2.59. The Audit paragraph highlights a specific instance of default by one of the commodity traders (Trader 'A') and of failure to enforce the contractual provisions in regard to breach of contract, which had resulted in short-realisation of £ 78.95 lakhs (Rs. 14.91 crores). The Audit paragraph also points out that trader 'A' was not normally in the international sugar business and that two leading trade houses in sugar—'X' and 'Y'—to whome only 0.33 lakh tonnes and 0.36 lakh tonnes respectively had been sold in April 1974 and March 1975, had actually repurchased 1.67 lakh tonnes out of 3.46 lakh tonnes shipped upto December 1974 from whom these contracts were entered into, the principal one of which was 'A'. The Committee further learnt from Audit that with reference to the induction of trader 'A' (Cie Noga, Geneva) who was not a traditional operator in the sugar business, the Ministry of Commerce had stated, *inter alia*, as follows (December 1975):

> "The international sugar market is dominated by a limited number of operators. There was a likelihood, therefore, that in selling sugar by formal tenders, there might be hardly any *inter se* competition between these operators. The STC's experience of sale by tender was also not encouraging offers received against a tender issued on 9.7.1974 were far lower than bids received directly about the same time. Similarly, efforts made by the STC to conclude sales directly with consumers e.g. in the various Middle East countries by making firm offers through the Indian Embassies or contracting the parties otherwise, were also unsuccessful.
>
> It was, therefore, prudent to sell sugar by informal limited tenders—by inviting bids through the STC foreign offices in New York, London, Paris and Singapore. Individual bids received from time to time were also considered and were countered or accepted after rechecking the market levels or trends based on information from all possible sources.
>
> In the above circumstances, the entry of a new firm unconnected with the traditional sugar operators, was welcomed. M/s. Cie Noga, Geneva—a large supporter of Indian sugar in 1974-75 though newcomer to sugar trading were reported to be large commodity traders especially in edible oils. Whenever bids received from M/s. Noga were found to be best, sales were concluded with them. Rejections of these bids on the ground that Nogas were newcomers would not have been to the country's advantage. Indeed, STC's foreign offices were constantly on the look out for similar competitors so as to broad-base, to the extent possible, the bidding and demand for Indian sugar.
>
> STC had commenced sales on 17.4.1974. On this day and the next day, sales were made to some of the established sugar operators. Thereafter, these operators practically withdrew from the market. In response to several invitations to bid, they offered relatively low prices. This lull in sales lasted for almost two and a half months —between the 19 April and the 3 of July 1974 there were only two sales—and was ultimately broken by Noga who started buying large quantities and offered on each occasion a premium over other offers. Altogether, Nogas during 1974-75 lifted a total quantity of

2.20 lakh tonnes of sugar and the average price realised by the STC on these sales was higher by about £ Stg. 13.50 per tonne as compared to realisations from all other purchasers".

As regards the repurchase of the sugar sold to Cie Noga by two other leading trade houses in sugar, 'X' and 'Y' (Sucres and Danres, Paris and E.D.F. & Man, London), the Ministry is understood to have informed Audit as follows :

"Concerning the statement that Nogas resold their purchases to other operators, it might be pointed out that in international sugar trade, it is quite common for cargoes to change hands frequently before finding a final home. There is nothing abnormal or malafide in this practice."

2.60. Explaining, during evidence, the circumstances in which it had been decided to sell Indian sugar to Cie Noga of Geneva, a newcomer in sugar trade, the Chairman of the State Trading Corporation stated :

".....we started selling sugar from April 1974 onwards and we were able to sell three or four lots between April and May 1974. Thereafter, there was a lull in demand, and then we had many more sales in July....At this stage, a party called Noga arrived on the scene and showed interest in purchasing sugar. We made enquiries about this party and found that it had a very sizeable business in edible oils and were dealing in nuts and sesame seeds and various other things. Their connections were specially strong in Sudan and places like that. When they came along on the scene and when we found that they were offering business which was very favourable and which was higher than what the other dealers were offering at that time, we were attracted by its offers. When we looked at the offers made by other parties and by this company at the same time, we found that the injection of the new demand created by Noga for Indian sugar would help us to get higher prices not only from Noga as compared to other dealers, but from the other dealers also because, if they did not out-bid this party, they would not be successful in getting it. Our experience with this party in those early days was very satisfactory; it was only later on, when the party ran into trouble with the Government of Sudan, that our contracts ran into difficulties. Otherwise, all the earlier lots sold to them went on smoothly and it was conclusively proved that the prices offered by them at the time when we made the sales were, in almost all the cases, higher than what was being offered by other people and at which it was being sold to other parties."

2.61. Since the facts disclosed in the Audit paragraph in regard to the sugar deals with Cie Noga appeared to indicate that the firm's performance was anything but satisfactory and that apart from certain earlier transactions between the State Trading Corporation and the firm in edible oils, the firm had no previous dealings with the Corporation, the Committee desired to know how Cie Noga had suddenly entered the sugar trade. The Chairman of the State Trading Corporation stated in evidence :

"I would like to impress upon the Committee that there is no cloak and dagger mystery about this transaction. It is true that Nogas use dealing in edible oils; we ourselves had one or two dealings with them. But there are many trading firms all over the world which

deal in one commodity in one year and in another commodity in another year. There is nothing uncommon or unique; we ourselves shift from one commodity to another if we find that our chances are better."

He added :

"When bids started coming in from Nogas, on every occasion we had satisfied ourselves that their order offer was equal or better than others before accepting their offer. I am sure and you will agree that if somebody has been meeting his commitments well and offers you a higher bid, it would not be in our interest to refuse that bid. As I explained earlier, our experience with Nogas was highly satisfactory until the sugar market took a big dip. They ran into troubles with their buyers and hence came the rescinding of the contract. Upto that stage, our experience with them was very satisfactory."

2.62. The Committee desired to know details of the Directors of Cie Noga and its agents. The witness stated :

"There is one Mr. Gaon. He resides in Switzerland; he is a Swiss national, is a Jew who lived for many years in Sudan. For the last 15—20 years, he has settled down in Switzerland. He is a leading light in the Jewish community. He is a businessman of great dimensions."

As regards the agents of Cie Noga, the witness stated :

"They had an agent called 'Marpro' in London and Emgee International in India. But they were there only for looking after shipments, documentation etc.....There was one Mr. Gill with this company Emgee International, who did all the documentation in India. Emgee International were working for Marpro and Nogas in their capacity as Indian agents."

On the Committee enquiring about the standing and antecedents of Marpro, the London agent of Cie Noga, the witness stated that the company was owned by one Mr. Marshall who was a broker in edible oils and "very well connected." He stated further :

"He is one of the best salesman in that part. We have had occasions to deal with him. He acts only as a broker; he does not charge us anything; he operates from London. He had some very valuable contracts in the oil trade."

The witness informed the Committee further that the State Trading Corporation had had a number of transactions with Mr. Marshall of Marpro for purchase and sale of edible oils. A note subsequently furnished in this regard by the Ministry of Commerce/State Trading Corporation is reproduced below :

"Marpro Limited are intenrational commodity brokers. Their head-office is in Surbiton, Surrey, UK and they have a network of associate offices in Bombay, New Delhi, Sao Paulo, Porto, Alegre, Tokyo, Teheran, Hamburg, New York and Geneva.

STC has been dealing with Marpro for several years. Among the commodities in which STC has dealt with an imports and exports of oils. Business has been concluded through Marpro as and when their bids/offers have been found to be most competitive.

STC is not aware about Marpro having ever come in for adverse notice in regard to their handling of STC business."

Asked whether the credentials of the agents of Cie Noga were examined and verified adequately, the Chairman of the Corporation replied :

"We examine the credentials of the principal buyer who can nominate their agent, whose role is limited to look after documentation, shipments and things like that."

2.63. As regards the Indian agent of Cie Noga, the Ministry of Commerce/State Trading Corporation informed the Committee that M/s. Emgee International had its business located at 82, Sunder Nagar, New Delhi and added :

"As far as known to the STC, it is a proprietary concern of Shri J. S. Gill. M/s. Emgee International was never a party to negotiations with M/s. Noga but quite often they acted as a channel of communication between the STC and M/s. Noga."

Asked whether the Indian representative of Cie Noga was at any time in Government service or employed by the State Trading Corporation, the Chairman of the State Trading Corporation replied :

"No, Sir. If you are referring to Mr. Gill of the Emgee International, according to our information he was not, at any time, in the employment of either the STC or the Government."

To another question whether any Government or STC personnel who could influence various decisions in regard to the Corporation's transactions were behind or associated in any way with Cie Noga or its agents, the witness replied :

"No such information has come to my notice . . . I am not personally aware of it."

Asked whether any efforts were made to ascertain if there had been any dubious links between Cie Noga, its agents and persons capable of influencing the Corporation's decisions, the witness replied :

"We look at each transaction based on the offers we receive. I am not aware of any such thing."

In a note furnished in reply to another question in regard to the machinery available with the Corporation to verify the antecedents of Indian agents of foreign firms, the Ministry of Commerce/State Trading Corporation stated:

"There is no special machinery available with the STC to verify the antecedents of the Indian agents of foreign firms. The Board of Directors of the STC have laid down guidelines, which provide

for ensuring that the agents in India of foreign firms have obtained RBI's clearance to act as an agent and to furnish details of their agency agreements, which are to be examined for determining the extent of the agent's authority and the commission being paid to the agent by the foreign party."

The Committee also desired to know if Cie Noga was inter-connected with any of the other firms with whom contracts for the export of sugar were concluded by the State Trading Corporation during 1974-75. In a note* furnished in this regard, the Ministry of Commerce informed the Committee that Cie Noga was not inter-connected with any of the other international sugar traders.

2.64. The Committee desired to know how liaison with Cie Noga was first established in respect of sugar sales and whether it was the firm itself or the State Trading Corporation which had made the first overtures in this regard. The Chairman of the Corporation stated in evidence :

"In dealing with sugar, the Sugar Department in our office receives letters, telephone calls, enquiries and telex messages from all kinds of people in India and abroad. At that stage they screen that particular enquiry and then put it up to the Director Incharge if it shows some potential for business. I am not at this stage aware on which particular date Noga established contact for the first time for sugar with the STC. We can give you their first communication that they must have written to us, or telephoned us indicating that they were interested in buying Indian sugar."

In a note furnished subsequently in this regard, the Ministry of Commerce/ State Trading Corporation have stated :

"STC did not make the first overtures in sales of sugar to M/s. Noga. On 19 April 1974, Mr. Sam Marshall (of M/s. Marpro, London) gave a bid for one cargo of sugar to STC, London. This bid was not found acceptable and the STC, London in consultation with the Director incharge made a counter offer which was accepted by Mr. Marshall on behalf of M/s. Moga. The text of the first communication received by STC from Mr. Marshall is reproduced below :

'Marshall Srbtn 1342 19.4.76 SV/JM

Mr. Kumar

White Crystal Sugar

Grade C-30 D-30 but basis 99.5 polarisation in 50 kilos single gunny bags FOB main Indian port declarable by seller within 72 hours quantity 11,000 MT one cargo 15 May/31** June 1974 FOB price sterling 272 metric nett bid valid reply here two hours Sam Marshall, Marshall Srbtin'."

2.65. Asked whether before entering into high-value contracts for the sale of Indian sugar with a comparatively new-comer in sugar business, the

*Not Vetted in Audit.

**Note : Should be 30 June.

State Trading Corporation had made any enquiries in regard to the antecedents, financial position and other relevant details about Cie Noga, the Chairman of the State Trading Corporation replied in evidence :

> "When this party started coming in and a lot of business was taking place, we naturally looked into this particular company. As I said to you, at that time large sums of money through Letters of Credit were coming very rapidly and his performance, as I said, on every count, was fully satisfactory. But, later on, when we started getting suspicious that the contracts might run into difficulty, we re-opened negotiations with him. We wanted him to give guarantees against pending contracts, of the value of 10% which he refused at that particular time. But we did take a number of steps to tighten up the fulfilment of these commitments. One such thing is that we have now introduced a new clause in all our contracts whereby the letters of credit are cashable against warehouse receipts as opposed to shipments. When we are dealing with any new party in the trade, we have now started insisting upon 10% guarantee or 10% cash down payment as earnest money to safeguard our contracts."

To another question in this context whether the balance sheets of Cie Noga had been scrutinised with a view to ascertaining the firm's resources, annual turn-over, etc., the witness replied :

> "We have not seen the balance sheet of the Nogas. We admit that. But his turnover was very substantial in sugar in so long as he was dealing in it and more so in other commodities like edible oils. We also had a banker's reference. I have in front of me right over here a paper which says that this well-managed company transacts business on a large-scale, their financial position appears to be sound, the bank is able to furnish guarantee."

Asked from whom the reference in regard to the financial standing of Cie Noga was obtained, the witness replied :

> "I am reading from a telex which came from London office. They have consulted the State Bank of India, London."

He added :

> "Banks have their own way of finding out through other banks about the financial soundness of any party."

On the Committee enquiring whether the State Bank of India were the bankers of Cie Noga and, if not, whether the State Trading Corporation had not considered it necessary to obtain information from other sources about the firm's financial credibility, the witness replied :

> "The report received from the State Bank is a very recent report. The State Bank of India are not their bankers.....We asked them. They asked other international banks. But as I mentioned before, we had dealings with this party in respect of edible oil transactions in the past. Those dealings were quite satisfactory. The party was already known to us. But we did not deal with them in sugar earlier."

He stated further :

> "The party was sound as we had dealings with them in the past and we were satisfied with them."

In a note furnished subsequently in this regard, the Ministry of Commerce/ State Trading Corporation have stated :

> "Prior to commencement of sugar exports, STC had a contract in 1972 regarding import of rapeseed oil with M/s. Cie Noga, Geneva. There was no default in that case and their performance was satisfactory. The first offer for sugar was received from M/s. Cie Noga, Geneva through Marpro, London, a firm of brokers who had given to STC competitive service. STC did not consider it necessary to verify the standing of M/s. Cie Noga, Geneva, in view of previous relations.
>
> When it was noticed that Nogas were emerging as a very large buyer of Indian sugar, they were asked in December 1974 to furnish a 10% bank guarantee with a bond for due performance of contracts. M/s. Noga, however, declined to do so on the ground that it was not customary in the international sugar trade for such bonds to be furnished. They also mentioned that their past performance had been flawless and hence there was little justification at that stage for a performance guarantee being demanded. Indeed, in respect of all shipments made to them upto May 1975, M/s. Noga had duly established letters of credit and satisfactorily completed their commitments."

2.66. The Committee desired to know when the communication from the State Bank of India referred to during evidence was received and whether any other reports had been received from the Bank or the representative of the Corporation in regard to the sugar deals. In a note, the Ministry of Commerce/State Trading Corporation informed the Committee that the subject telex message was received from the London office of the Corporation on 22 June 1976, followed by a subsequent message on 25 June 1976. The Ministry/Corporation stated further :

> "The different branches of State Bank of India when requested, obtain reports from other Banks and pass them on to us. The State Bank of India does not, as such issue its own reports unless the party concerned is its customer. No other report about M/s Cie Noga has been received from the State Bank of India, New Delhi and London nor from the STC, London."

Copies of the telex messages No. 1 SPL dated 22 June 1976 and No. 15 dated 24 June 1976 were also made available to the Committee which are reproduced in Appendix XIII.

2.67. Asked whether there was any standing arrangement for the State Trading Corporation for the verification from the Trade representatives or Indian Embassies abroad of the antecedents and reputation of foreign firms with whom contracts are concluded, the Chairman of the Corporation replied :

".....we do not consult the Trade representatives except in countries where we have no offices or except in contries where they make a reference to us. Otherwise, we normally ask our offices or banks to collect the reports about new parties which come on the scene."

2.68. In view of the fact that contracts running into crores of rupees had been concluded with a new-comer to the business apparently without any detailed enquiries about the firm, the Committee desired to know whether the Commerce Ministry had examined the transactions with Cie Noga and if so, what that Ministry's views were about the non-verification of the firm's credentials. The Secretary, Foreign Trade, stated in evidence :

"We did look into this case and, according to the information we have received from the STC, it appears that the STC was able to make on an average about £ 13 per tonne extra as a result of this new-comer's intervention in this trade. To the-extent the STC has been able to get comparatively higher unit values in their exports and that too, the margin is fairly considerable, we were happy at the sales so far as they went.

But I should not conceal from the Committee the fact that we were concerned that the sale, the latter part of the sale or certain parts of the contract, ultimately did not turn out to be all right, because there has been a default on the part of the Nogas in one contract and to that extent, we were rather concerned and unhappy but we took the view that while the major part of the contracts had gone off well and had brought reasonable prices to the STC and to the country, one case of default on the part of Nogas is something which we thought is part of the bargain, or that was the only way to look at."

The witness added :

"If a big-value contract had to be awarded to a party, there should have been a proper verification of bank credentials. That is the normal practice. STC or MMTC is no exception. In the normal course they should have done it. We ascertained the facts as to why, in this particular case they did not verify bank credentials or obtain bank's report in a formal manner. These facts have been given before the Committee by the Chairman of the STC. They said that the STC had been having similar contracts with them earlier, and that the latter's performance was satisfactory. The STCs went along and only when the contract went sour, did the STC realise the mistake and immediately they proceeded to get the bank guarantees. And the subsequent contract, as the Chairman explained, was backed by bank guarantee."

2.69. One of the reasons attributed by the State Trading Corporation accepting Cie Noga's offer was that the prices offered by the firm were, in almost all cases, higher than the offers of other sugar traders. The Committee, therefore, asked whether the offer of higher prices it self (which were about £ 10 higher than other offers) did not give rise to any doubts about the firm's intentions. The Chairman of the State Trading Corporation stated in evidence :

"Regarding the question how the party could offer 10 pounds more there could be two reasons. At that time the officer was delighted with the offer. It was in excess of the current market prices."

Asked in this context whether the firm's apparent generosity in quoting higher prices could not have been a cloak behind which dubious intentions were concealed, the witness replied :

"One very plausible reason might be this. He at that stage had very good outlet for Indian sugar in Sudan. Looking back with hindsight, he was taking a view that sugar market was rising. Being an outsider he thought he had to improve the offers which other dealers might be prepared to offer for the same quantity and the same delivery."

He added :

"The point is this. He did have good contracts and he was able from time to time to sell sugar. Of course, he came into trouble with Sudan Government which led to some failure. But at that time, during the course of our transactions, he was able to inject new competition. He was able to offer higher price."

In reply to another question as to what precautions were taken by the State Trading Corporation as the agent of the Department of Food to safeguard Government's interests, the witness stated :

"We did subsequently amend our contract forms. We put new stipulations or new conditions not only with him but with every body else on provision of bank guarantee to match each and every transaction..... We had acted to the best of our ability."

2.70. The Committee desired to know whether at all stages relevant to the conclusion of contracts with Cie Noga and also when the firm had first indicated an interest in the purchase of Indian sugar, the approval of the Board of Directors or the State Trading Corporation had been obtained. The Chairman of the State Trading Corporation stated in evidence :

"There were frequent consultations between the director-in-charge authorised to sell sugar and the appropriate directors on the Board coming from different ministries depending on the nature of the problems, the size of the transaction etc. There were frequent consultations."

The representative of the Finance Ministry added :

".....in respect of a contract over Rs. 3 crores, particularly, in the case of sugar, there is a sub-Committee of the Board in which, apart from the full-time executive directors from the STC dealing with this commodity, representatives of the Ministries of Commerce and Finance are also represented. We together go into this question periodically and give guidelines on the basis of which individual contracts could be concluded in a short time."

The witness added :

> "All these contracts were concluded with the concurrence of the sub-Committee of the Board of Directors who are dealing with sugar.

Supplementing this information, the Chairman of the State Trading Corporation stated :

> "In the case of sugar, each contract, by and large, exceeds the normal limit of Rs. 2 crores. Technically, nobody could contract the sale of more than Rs. 2 crores. And subsequently, without consulting the Board/Sub-Committee this was raised to Rs. 3 crores. In sugar sales the Executive Director was constantly in touch with representatives of different Ministries to decide what ought to be done and what would be the right way to set about it."

Asked who was the Director who had negotiated the contract with Cie Noga and signed it, the witness replied :

"The Director at that time was one Mr. Shukla." To a question whether he was authorised to enter into the contract, the witness replied :

> "He was empowered to negotiate the contracts and to keep everybody informed as to what was happening. He was in touch with the parties and had to see that we were successful. There used to be dialogues between him and the buyers and our foreign offices and so on and there was also advice given as to who wanted to buy and who did not."

2.71. Since it had been stated that all the contracts were concluded with the concurrence of the sub-committee of the Board of Directors dealing with sugar, the Committee desired to know whether only *ex-post-facto* approval was obtained or prior approval for the transactions was invariably obtained. The representative of the Finance Ministry stated in evidence :

> "We used to have a discussion periodically once a week and sometimes, even once in three or four days we used to meet and give some guidelines to the director concerned. He used to get quotations and sometimes he used to consult us on the phone. But, there must have also been occasions in which we might not have been available and, in that case, he used to take the decision himself and report to us immediately."

He added :

> "If some authority had been given for conducting the contract on a certain basis and then after it had been done on that basis if it was subsequently reported, it would be perfectly in order."

As regards the specific transaction with Cie Noga, the Ministry of Commerce/State Trading Corporation, in a note, informed the Committee as follows :

> "On 19.4.1974, the first sale to M/s. Noga was concluded by the then Director in charge of sugar exports. The sale was, however, reported in a note to the Board of Directors of STC at their meeting held on 27.4.1974."

The Committee, therefore, desired to know whether in this particular transaction, the sub-committee had only been presented with a *fait accompli* which had to be inevitably ratified subsequently. The representative of the Finance Ministry stated in evidence :

> "....it is not that way. If something had happened which did not fit in with the guidelines or directions given to the executive director, certainly, I would have immediately retorted back by saying that what was being done was wrong."

2.72. At the Committee's instance, the Ministry of Commerce/State Trading Corporation furnished the following note indicating the composition of the Sub-Committee of the Board of Directors for sugar exports and details of the meetings convened during the relevant period to examine the performance of Cie Noga in respect of the sugar transactions concluded with the firm :

> "The Board of Directors of STC at their meeting held on 27 April 1974 constituted the Sugar Export Committee (SESC) with the following as its members :

Shri A. P. V. Krishnan		Addl. Secretary, Ministry of Finance.
Shri R. K. Talwar	..	Joint Secretary, Ministry of Commerce.
Shri S. S. Shukla	..	Executive Director, STC (in-charge of sugar exports).

> The Board at the same meeting authorised the Director-in-charge of sugar exports to negotiate and conclude export transactions, if found necessary at any time, in his best judgment. Subject to all such transactions being reported weekly to the Sugar Export Sales Committee, for ratification and review. The Committee has since then undergone the following changes :

(i) 27-5-75	..	Shri Prem Kumar, Joint Secretary, Ministry of Commerce replaced Shri RK Talwar.
(ii) 1-8-75	..	Shri MN Misra, Executive Director, STC took over charge of sugar exports from Shri SS Shukla.
(iii) 26-8-75	..	Shri PN Kapur, Joint Secretary, Ministry of Commerce replaced Shri Prem Kumar.
(iv) 16-6-76	..	Shri APV Krishnan, resigned from the membership of the STC's Board and SESC. Since then Shri C. Venkataraman, Joint Secretary, Ministry of Finance has been attending the meetings of the Board of Directors and Sugar Export Sales Committee by invitation. His formal nomination is still awaited.

> The setting up of the SESC of the STC Board and the kind of authority given to the Director in-charge about the necessity of facilitating quick decisions reflected the judgement of the Board for export sales of sugar. The value of each cargo, usually of 11,000 tonnes, at the then ruling prices was around Rs. 5 crores. Since

international commodities market are at best of times prone to sudden and wide fluctuations—and the international sugar market was in a highly speculative state at that time—the bids for purchase of sugar received from foreign buyers were open for consideration for a very short time—sometimes only for half an hour or less. For obvious reasons, these bids could not be processed in accordance with the normal procedure of holding a formal committee meeting. The system adopted was for the Executive Director-in-charge to contact the other members of the committee on telephone whenever any bid was received and further action—acceptance of the bid or a counter-offer or rejection of the bid was taken in accordance with the decisions of the members of the committee secured on the telephone. A record of the decision of the committee was thereafter retained.

Since in the year 1974-75, the performance of Noga was completely satisfactory, the committee did not meet specifically to examine Noga's performance. However, a meeting of the committee was called on 10.3.1975 to meet Mr. Gaon, Chairman of Nogas, when he visited New Delhi on that date."

2.73. Asked to indicate the number of occasions when various decisions were taken with the prior approval of the Sugar Exports Sales Committee (SESC) and the number of occasions when the Director concerned himself had taken the decisions and had only reported these to the SESC, the Ministry of Commerce/State Trading Corporation, in a note furnished to the Committee, replied :

"After the formation of the SESC on 27 April 1974, sales were made to Noga on 10 occasions during 1974-75, prior approval of the Committee had been taken on four occasions, one sale was made in Tehran and on the remaining five occasions post facto approval was obtained of the SESC/Board of Directors."

Copies of the record notes dated 19 April 1974 and 2 May 1974 relating to the transactions with Cie Noga also furnished to the Committee by the State Trading Corporation are reproduced in Appendix XIV.

2.74. Since it had been stated during evidence that guidelines for concluding contracts were given by the Sugar Exports Sales Committee to the Director concerned, the Committee called for copies of the guidelines issued in this regard. In a note, the Ministry of Commerce/State Trading Corporation stated :

"It has been stated that during 1974-75 formal meetings of the Committee were not usually held and that as a rule telephone consultations were held with the SES Committee members whenever any bid was received or an offer had to be given. On these occasions the Committee used to take a view about the quantity of sugar which might be sold at the time, the minimum price acceptable and the delivery periods in future for which commitments might be made. These decisions/guidelines as would be easily appreciated, had to be kept strictly confidential and were not reduced to writing."

The Ministry/Corporation, however, added that at its meeting held on 7 March 1975, the sub-committee had laid down general guidelines pertaining to methods of sale, etc. and made available a copy of the minutes of this meeting, which is reproduced in Appendix XV.

2.75. Drawing attention to the fact disclosed in the Audit paragraph that two other leading trade houses in sugar (Sucres and Danres, Paris and E.D.F. & Man, London) had actually repurchased 1.67 lakh tonnes out of 3.46 lakh tonnes shipped upto December 1974 from other traders with whom contracts had been concluded, the principal one of which was Cie Noga, the Committee asked whether it would not have been better to have dealt directly with these better-known and longer-standing firms and whether the resale of Indian sugar by Cie Noga to these two traders did not appear odd. The Chairman of the State Trading Corporation replied in evidence :

> "It does not look odd at all. Sugar is being bought by various dealers in London, Paris and New York. To Nogas also we sold sugar in addition to other dealers to whom also we sold large quantities of sugar. It is quite customary in the sugar trade where daily transactions are taking place to buy sugar and place it with other dealers depending upon who requires the physical delivery of sugar at that particular moment. To illustrate further, what happens is, if we sell sugar, there are two ways in which the buyer at the other end could buy our sugar. One is that he takes a view and buys it on his own account and disposes of it in course of time. The other is that the buyer buys it from us and promptly goes to the London, Paris or New York terminal markets and takes out a cover on the terminal market. In other words, it is only a paper transaction and he only takes his margin, through a hedge.
>
> ....the market for our sugar is limited and sugar is physically sold to Sudan, Egypt, Indonesia or whoever is the buyer. At that stage they rebuy the paper from London and the transaction is squared up. In the case of physical deliveries, Dealer 'A' sells goods to Dealer 'B' at the price prevailing at the time and this way adjustments are made and there is nothing unusual or mysterions about it."

2.76. On the Committee pointing out in this context that Cie Noga appeared to have acted only as a middleman and not as a principal trader in sugar, reaping considerable benefits at India's expense and enquiring whether it would not have been a sounder policy to deal directly with the Paris and London firms, the witness replied :

> "We were dealing with London and New York dealers also. It is not that we just stopped dealing with them. He bought lots of sugar which, with his influence, he could sell to Sudan or others. So he took a particular view. It is not as if we denied it to any other party who was interested in our sugar. It was just that there was one more buyer who had shown interest in our sugar. If you look at the structure of the sugar trade, whether it is London or Paris or New York, there are 5—6 dealers who control the business in each of these cities and many of the companies are interconnected in London and New York and in London and Paris. In this situation, when some new competitor arrived on the scene—of course, he might have reaped some benefit—but I wish to submit to you that we also reaped considerable benefit out of his entry."

2.77. A statement, furnished at the Committee's instance by the Ministry of Commerce/State Trading Corporation, indicating details of all contracts (for sugar as well as other commodities) concluded by the State Trading Corporation with Cie Noga, Geneva, during the period from January 1972

to December 1975 is reproduced in Appendix XVI. It would be seen threefrom that prior to the first sale of one cargo (1,000 MT) of sugar on 19 April 1974, only one contract for the import of 10,000 MT of Rapeseed oil had been concluded with Cie Noga on 29 November 1972, while four contracts for the import of a total quantity of 14,000 MT of Technical Palm Oil had been concluded between 2 August 1975 and 13 November 1975. In addition, a contract for the export of 10,000 MT of Basmati Rice had also been concluded on 28 August 1974. It would be further seen that the contract for the import of 3,500 MT of Technical Palm Oil concluded on 13 November 1975 had been cancelled on account of default by Cie Noga who had gone in for arbitration on the plea that the Letter of Credit was not received by them within the contractual shipment period. Similarly, only a quantity of 5,000 MT of Basmati Rice out of the total quantity of 10,000 MT contracted for in August 1974 had been lifted by Cie Noga and according to the information furnished to the Committee by the State Trading Corporation, an amount of $ 2,50,000 was realised from the firm as liquidated damages for the default on the balance quantity of 5,000 MT.

2.78. Yet another reason intimated by the Commerce Ministry to Audit in December 1975 for the selection of Cie Noga for the sale of Indian sugar was that the foreign offices of the State Trading Corporation "were constantly on the look-out" for similar competitors like Cie Noga "so as to broad-base, to the extent possible, the bidding and demand for Indian Sugar." The Committee, therefore, desired to know how many such non-traditional competitors, apart from Cie Noga, were induced, as a result of these efforts, to bid for Indian sugar. In a note* the Ministry of Commerce/State Trading Corporation stated :

> "With a view to broad basing the demand for Indian sugar and to reach consuming countries directly to the extent possible, the STC entertained enquiries from all interested buyers and even addressed the various Indian embassies, abroad. During 1974-75, 76 such enquiries/references/bids were received from Government agencies, foreign/Indian companies etc., but none of them materialise into an actual sale owing to lack of agreement on terms or prices."

2.79. The Audit paragraph points out that between December 1974 and March 1975, the State Trading Corporation had contracted for sale of 1.47 lakh tonnes of sugar of which contracts for 0.75 lakh tonnes were concluded with Cie Noga and that while the firm had signed the contract dated 19 December 74 for 11,000 tonnes, it had not signed the other two contracts dated 10 March 1975 and 17 March 1975 respectively for 31,000 tonnes and 33,000 tonnes. Further, while all the other purchasers took delivery of the sugar contracted for, Cie Noga had not taken delivery of 0.63 lakh tonnes against its contracts for 0.75 lakh tonnes. These contracts had, therefore, been rescinded by the State Trading Corporation without taking recourse to the contractual provisions governing breach and arbitration, and a fresh contract for 0.60 lakh tonnes in lieu of the rescinded contracts was entered into with Cie Noga in July 1975 at $ 525 (£ 219.39) per tonne. The following statement, furnished at the Committee's instance, by the Ministry of Commerce/State Trading Corporation, indicates details of the contracts rescinded and renegotiated with the firm :

*Not fully Vetted in Audit.

Statment

Date of sale	Quantity ±5%(MT)	Quantity* (MT)	Price /MT FOBS	VALUE	
				$/£	Rs. lakhs
A. CONTRACTS RESCINDED.					
1. 19-12-74	11,000	10,450	$1135·0	$140,60,750	943·52 ($=Rs. 7·9555)
2. 10-3-75	31,000	17,350	£295·0	£148,83,775	2770·17 (£1=Rs. 18·612)
3. 17-3-75	33,000	31,350	£311·5		
		59,150			3713·69
B. CONTRACT RENEGOTIATED					
1. 24-7-75	60,000 ±5%		$525·0	$315,00,000	2653·58 ($1=8·425)
		Net differential realisation:			1059·81

*Noga intimated on 14-5-75 that they would lift 5% less.

2.80. The Committee learnt from Audit that with reference to the rescinding of the subject contracts, the Ministry of Commerce had stated (December 1975) as follows :

> "It is correct that out of three contracts for 75,000 M/T entered into with Nogas, at an average price of £ 740/- per MT FOBS a quantity of 62,900 MT remained unlifted; in its place a fresh contract for 60,000 MT was renegotiated with this party. This situation arose due to the following reasons :—
>
> (i) a sharp fall in the international prices in the period following the signing of the defaulted contracts which enabled other international dealers to undercut Nogas;
>
> (ii) the problems raised by the ultimate buyers (Sudan) about the price of their contract with Nogas; and
>
> (iii) Noga's inability to raise finances against the 360 days letters of credit against which they were to supply sugar to Sudan.
>
> Nogas, therefore, requested for extensions of delivery periods and also suggested that STC accept the 360 days Sudanese Credits. Nogas were informed that while extensions to shipment periods could be considered 360 days credit was not acceptable to STC. In July 1975, Nogas offered to buy another 1,00,000 tonnes of Indian sugar at the then prevailing prices i.e. about US £ 300 per MT FOBS, and to take delivery of the entire quantity i.e. about 1,63,000 Mts. at a weighted average price working out at US 469 per metric ton. Alternately they suggested that the STC renegotiate the price of the pending quantity. After several discussions, they made the highest offer of $ 525 per MT FOBS for a quantity of 60,000 MT to be covered by a clearly specified schedule of shipment, a 10% bank guarantee for any default and a confirmed irrevocable letter of credit which could also be cashed against warehouse receipts if the ships were not duly nominated or were unable to commence loading by specific dates.
>
> Both the alternatives offered by Nogas were carefully considered and it was felt that they may not be good for a larger commitment. It was also decided that in any renegotiation, the terms must be fully secured. Rather than sell them additional and large quantities while the earlier contracts were still in default, it was considered preferable to limit the sales to Nogas only to the extent of quantities in dispute and to tighten up the conditions and documentation of sales, so that there was no danger of any lapse or default in the disposal of this quantity."

2.81. The Committee desired to know whether the State Trading Corporation had treated the two contracts (dated 10 March, 1975 and 17 March, 1975) as valid and performed its parts of the contracts though they had not been signed by Cie Noga. The Chairman of the State Trading Corporation stated in evidence :

> "....we have a standard form of contract. When Nogas made these offers in December 1974 and March 1975 they sent us their own contract forms against these sales. In return we sent our

standard forms for signing and these were never returned. It is these contracts which became a subject-matter of dispute afterwards."

The following statement furnished subsequently by the Ministry of Commerce/State Trading Corporation indicates the dates on which the three contracts were sent to Cie Noga for signature :

Date of contract	Date of despatch by London office to Noga for signature.	Date of receipt by STC, London of contracts signed by Noga.
19-12-1974	24-12-1974	21-1-1975
10-3-1975	8-5-1975	Not retruned by Noga after signatures.
17-3-1975	8-5-1975	Do.

2.82. Asked to indicate the reasons for Cie Noga not returning two of the contracts duly signed and the steps, if any, taken by the Corporation to get them signed, the Ministry of Commerce/State Trading Corporation replied :

"For the sales made on the 10 and the 17 March, 1975, STC, London was asked on 31.3.1975 to forward STC's standard contracts to Noga for their signatures. Before these contracts could be sent to Noga, STC, London received from Marpro London Noga's signed contracts with a text not quite in conformity with the STC's usual standard contract. Our standard contracts were forwarded by STC, London on 8.5.1975; these were, however, not received from Noga despite reminders to both Noga & Marpro. No reasons were given by Noga for not returning the contracts."

2.83. A statement furnished, at the Committee's instance, by the Ministry/Corporation indicating details of various contracts concluded for the sale of Indian sugar with Cie Noga and the firm's performance in respect of each of these contracts is reproduced in Appendix XVII.

2.84. As pointed out in the Audit paragraph, the format of the contract adopted by the State Trading Corporation for sale of sugar to free world destinations provides, in the event of breach of contract, for arbitration by the Council of Refined Sugar Association in London, whose decision is enforceable in law in the United Kingdom. Yet, recourse had not been taken to this provision as the State Trading Corporation thought that prospects of recovery of claims in the event of starting litigation were poor. Since this had resulted in short-realisation of as large a sum as Rs. 14.91 crores, the Committee desired to know the reasons for rescinding the contracts without enforcing their terms and enquired into the basis for the State Trading Corporation coming to the conclusion that prospects of recovery of the claims were poor. The Chairman of the State Trading Corporation stated in evidence :

"The figure of less just now stated is in our opinion highly exaggerated. We admit that there was the failure of the contract. We also admit that there was the need for renegotiation of the contract. But, if I may say so, ever since the oil crisis, when the price fluctuations have been of a violent order, renegotiation of

contracts does take place both from our side as well as from their side and these things do happen. But, I think that if we look at the whole episode objectively, then, I think, that on balance, we have profited from this association although, ultimately, we have this disastrous loss contract."

Asked whether any show cause notice was issued to Cie Noga for its default, the witness replied :

"I would explain things in some detail, because it is a long and chequered story. Certain offers were made by this party at a certain time. They were accepted. Some contracts were signed, some were not. These goods were due for shipment in April, May and June 1975. Till the end of May, same letters of credit were established. A quantity of about 12,000 tonnes out of a total of 75,000 tonnes had been shipped; and the balance remained unshipped. At that time, the party said that he was sorry he was having some difficulty with the ultimate party, *viz.*, the Sudanese buyer. He asked : would you give this credit or accommodate me in some other way ? A kind of a dialogue had started from that point. It was found in May or June 1975 that there would be some delay in effecting shipments. Negotiations went on; and finally by the end of June or early July, he said : we will have these quantities; but give us more, so that we can lower the average cost, since the sugar market has by now fallen. This way, we will be able to honour our commitments. We considered this representation. We came to the conclusion that since some contracts had run into trouble, it would not be correct to entertain his request. So, we confined our dialogue merely to the fulfilment of the balance quantity of 60,000 tonnes. That contract was, therefore, renegotiated for the balance quantity at a price of 525 dollars. This is how we have come to the figure of loss of Rs. 12-14 crores. We were trying to salvage these contracts. We did not wish to have any more dealing with this party. By this time, we thought it better to confine our attention to merely fulfilling what was pending."

Since this implied that no notice had been served on Cie Noga, the Committee enquired whether the State Trading Corporation should not have taken adequate legal steps to safeguard Government's financial interests. The witness replied :

"As far as the shipment of sugar is concerned, when you sell it for delivery in May, sometimes its delivery does take place in June or July. As far as this particular contract is concerned, as soon as its delivery was delayed, took up the matter with the party. He was trying to come to same settlement with us."

Elaborating the position further, the witness stated :

"As I mentioned before, there were 4 or 5 different contracts, some of which have not been signed. . . . They were concluded at an average price of 740 dollars. In July 1975, the price of sugar was only 300 dollars. We had a large stock of sugar for sale at that moment. Now, we had two choices open to us. One was that

since some of these contracts had not been signed, those could be treated as closed and the other choice was to try and salvage these contracts and get as much as we possibly could. Instead of selling the sugar to the rest of the world at 300 dollars which subsequently became 400 dollars on 10 July, we were able to secure from this party 525 dollars. In other ords, if we had not delivered this quantity to this party and treated the contracts as cancelled, we would have actually lost a much bigger amount whereas by selling this quantity at 525 dollars we were able to secure from him anything between 125 to 200 dollars mere than the comparable value of sugar at that given point of time."

2.85. Asked in this context why the sale should have been renegotiated at a large price thereby putting the country to huge monetary loss, the witness replied :

"What other option had we ! The sugar market had fallen substantially between the time when this contract was made and the time we became aware that the contract was running into difficulty. We had a large quantity of sugar to be sold at that particular moment."

In reply to another question as to why legal action was not contemplated against Cie Noga for its default the witness stated :

"There were different schools of thought. One school of thought was of the opinion that we should take legal action against this company. Another school of thought was of the opinion that since we had a large quantity of sugar yet to sell and ship. We should try and secure the best possible price out of this company. So, we took a view that settlement of 525 dollars was in the best interest of ourselves."

He added :

"By simply entering into contract with all precautions, there is no sanctity that there would be no failure on the part of company. In case there is a dispute, if we refer it to arbitration, we have to wait for the award which may be in favour of either party. Moreover arbitration means involving more delay. Legal action would also mean further expenses. So, we came to the conclusion after much deliberations that it was better for us to get some premium out of this party."

2.86. In a note furnished subsequently in this connection, the Ministry of Commerce/State Trading Corporation have stated :

"The position about rescinding the contract with Nogas has to be viewed in the context of the following important factors :

(i) The objective of the STC was to effect maximum export sales and ship about 12 lakh to 13 lakh tonnes, a quantity substantially larger than in the previous year. This implied that about

1 lakh tonnes of sugar had to be shipped every month and a direct bearing on the actual quantity exported.

(ii) In the context of a declining market, buyers were difficult to find. Hence a settlement with Nogas actually offered a better alternative to making a distress sale or lose the opportunity of actual shipment by getting involved in litigation/arbitration.

(iii) Further there was a danger of the quantities in question being held up or frozen pending disposal of the matter.

Noga failed to lift 62,900 MT sugar out of a total quantity of 75,000 tonnes purchased by them under the three contracts due to the following reasons :

(i) A sharp fall in the international sugar prices soon after the finnalisation of the contracts in question.

(ii) The problems raised by Noga's ultimate buyers (Sudan), about honouring their purchase contracts with Nogas; and

(iii) Noga's inability to raise finance for payment to STC against the 360 days' Sudanese letter of credit held by them.

Noga requested STC for extensions in delivery periods and suggested STC accepting the 360 days' Sudanese Credit. The latter was not acceptable to the STC. Nogas were told that extension of shipment periods could be considered provided the Cargoes sold for April shipment were lifted immediately—in any case not later than 30-6-1975. Negas, however, responded as follows :

Noga offered to buy on 2 July, 1975, another one lakh tonnes of Indian sugar at US $ 300/- per MT and to take delivery of the entire about 1,60,000 MT at an average price, working out to US $ 469 per MT, with an option till 1-10-1975, for another lot of one lakh tonnes of sugar at the above price of US $ 300 per MT, the total quantity to be shipped by June 1976.

In view of the complexities and the large stakes involved, intervention of the Chairman, STC was considered necessary at this stage. Meetings were accordingly held between Chairman, STC and Chairman, Noga, Mr. Gaon during the 2nd week of July 1975 in London and in Geneva.

Nogas in the end made the highest offer of US $ 525/- per MT for 60,000 MT to be covered by a clearly specified schedule of shipment, and 10% B/G for any default and a confirmed, irrevocable letter of credit which could also be cashed against warehouse receipts if the ships were not ultimately nominated or were unable to commence loading by specified dates.

Noga's offers were considered by the Board at their meetings on the 19 and 24 July, 1975. In view of their default, it was not considered advisable to sell them an additional quantity of one lakh tonnes, but to limit further sales to Noga only to the extent of quantities in dispute and to tighten up the contractual obligations and documentation so that there would be no danger of any lapse or default.

It is important to bear in mind the circumstances and the time when this decision to renegotiate had to be taken :

(i) Sugar market was rapidly declining : prices were ruling around $ 330/- per MT; and during the week 4-11 July, a quantity of 3,13,400 MT was sold at an average price of $ 352.86 per MT. Nogas renewed offer of $ 525/- though lower by $ 215/- per tonne (compared to the average price of US $ 740 of the quantity in default) was therefore attractive.

(ii) No sale contracts whatsoever had been concluded during the period 17 March to the 4 July, 1975. Indeed, even under the long-term contract with Iran, buyers were trying to postponed taking deliveries.

(iii) Indian production and, therefore, exportable surplus was substantial : the quantity required to be exported was 12 lakh tonnes, later raised to 13 lakh tonnes, as against 5.00 lakh tonnes in the previous year.

(iv) Cancellation of the sale to Noga in the above context would have seriously affected export performance.

(v) It has further to be noted that contracts were in different stages of being processed, while communications were being exchanged through different sources like M/s. Emgee Marpro Noga, some business had been concluded over telexes but formal contracts had either been signed or were in the process of being despatched for signature etc. In fact, the two contracts with Noga actually remained unsigned and the legal repercussions of this situation may not have strengthened STC's position vis-a-vis M s. Noga.

(vi) A resort to litigation was not favoured as legal proceedings besides being time consuming would have involved expenditure in foreign exchange without certainty as to the final outcome. Presuming the award would have been in STC's favour, note had to be taken of the difficulties in having the award executed in foreign countries and to form a judgment of the net amount which would in actual fact be recovered.

The above circumstances bring out into a sharp focus the following facts :

(i) In international trading particularly in respect of contracts where large sums of money are involved, contracts are known to be renegotiated on a mutually acceptable basis.

(ii) Legal action in individual cases could lead perhaps to a questionable advantage, but the repercussions of such actions generate considerable amount of illwill. International trading houses therefore often resolve disputed claims and counterclaims by mutual consultation rather than by resorting to arbitration or legal action.

Having regard to the various factors mentioned above and the commercial repercussions and legal complications involved in taking action against Nogas the prospects of recovery of that claim

from Nogas was in STC's judgment poor. Hence it was decided to accept Nogas renegotiated proposal."

The Ministry/Corporation also furnished, at the Committee's instance, a note indicating the chronological sequence of the steps taken by the State Tranding Corporation to ensure performance of the contracts by Cie Noga and after the firm had defaulted in fulfilling them leading to the renegotiations with Cie Noga, which is reproduced in Appendix XVIII.

2.87. The Committee asked when the rescinded contracts were renegotiated with Cie Noga and who renegotiated them. The Chairman of the State Trading Corporation replied in evidence :

"As a result of delays in the shipments and likely breach of these high priced contracts it was felt that I should go and meet Noga, which I did in Geneva. I had detailed discussions with him and tried to secure through negotiations the best possible price and he finally agreed to the figure of 525 dollars."

The Committee also learnt from the Ministry of Commerce/State Trading Corporation that Cie Noga's default had been discussed with Mr. Gaon, Chairman of Cie Noga, when he visited New Delhi on 10 March 1975. A copy of the record note of these discussions furnished to the Committee by the State Trading Corporation is reproduced in Appendix XIX.

2.88. The Committee desired to know whether the Board of Directors of the State Traing Corporation had been consulted before the decision to renegotiate the disputed contracts was taken. The representative of the Finance Ministry replied in the affirmative and added :

"....there was a discussion in the Board wherein the majority took this view."

Asked what the minority view of the Board was, the witness replied :

"Their view was that the matter should go for arbitration."

In reply to another question as to which of the Directors on the Board had preferred arbitration, the witness stated :

"....the Board operates on the basis of consensus. There were different viewpoints."

2.89. Asked when the default by Cie Noga and the question of renegotiation of the contracts was considered by the Board of Directors of the State Trading Corporation, the Ministry of Commerce/State Trading Corporation informed the Committee, in a note that this was considered at the meetings held on 19 July, 1975 and 24 July, 1975. Copies of the relevant minutes of those meetings were also made available, at the Committee's instance, which are reproduced in Appendix XX. Asked to indicate which of the members of the Board had preferred arbitration, the Ministry/Corporation replied :

"No record was minuted of the preferences of individual Directors. Dissenting Directors of the Board have always the right to get their dissent recorded. This right was not exercised by any Director."

2.90. The Committee desired to know whether the Commerce Ministry was represented on the Board of the Corporation and, if so, whether he had submitted any report to the Ministry in regard to the transactions with Cie Noga. The Secretary, Foreign Trade, stated in evidence :

> "....we have a Joint Secretary on the Board of the STC. But since I did not happen to be there then, I cannot give the information on the basis of first-hand knowledge. As far as my knowledge of the files goes, no report was made by the Joint Secretary to the Ministry; but I will verify and if necessary, correct the statement."

In a note furnished subsequently in this regard, the Ministry of Commerce stated :

> "No reports had been furnished to the Commerce Ministry by the Government Directors on the Board of the STC.

Government directors on the STC Board during the relevant period were the following :

— Shri A.P.V. Krishnan, Additional Secretary, Ministry of Finance.

— Shri Prem Kumar, Joint Secretary, Ministry of Commerce.

— Shri A. K. Sen Gupta, Economic Adviser, Ministry of Commerce.

— Shri B. D. Kumar, Chief Controller of Imports & Exports, Ministry of Commerce.

— Shri Bimal Jalan, Economic Adviser, Ministry of Industrial Development.

> No record is maintained of the views expressed by individual Directors at the Board meetings. At this particular Board meeting, alternative proposals to resolve the pending issues with Nogas were considered. According to the records available with the Ministry and the STC, three Government Directors on the Board, namely, S/Shri APV Krishnan, Prem Kumar and Bimal Jalan, expressed themselves in favour of recourse to arbitration and also confirmed this in writing to the Chairman, STC within about a week of the Board meeting. Having regard, however, to the fact that arbitration would be time consuming and there was no certainty about its final outcome, the majority of the Directors favoured settlement (without going in for arbitration). Possibly the Board decision was influenced by the fact that after the commodity boom of 1973-74, prices started declining all over the world and renegotiation of contracts was quite a common feature. We ourselves renegotiated down many import contracts."

2.91. Asked whether before coming to the conclusion that the prospects of recovery in the event of litigation were poor, the State Trading Corporation had consulted the Law Ministry and the Department of Food, the Chairman of the Corporation replied in the negative. Explaining the reasons therefor, the witness added :

> "We have a panel of lawyers and we consult our legal advisers whenever necessary.... By and large, it is our practice to refer such cases to our panel of lawyers."

To another question whether STC's panel of lawyers functioned at Delhi, the witness replied :

> "They are functioning in Delhi and depending on the case they may recommend further steps to be taken."

The Secretary, Department of Food, stated in this connection :

> "This matter had never been referred to us. Whenever any matter was referred to us, or any cooperation sought it was instantly given. If we had been consulted, we would have certainly contributed our mite and given them the advice."

The Committee, therefore, asked whether the State Trading Corporation functioning as an agent of the Department of Food in respect of sugar sales should not have consulted that Department when a crisis arose. The Chairman of the Corporation replied :

> "Whoever it is, one has to consult depending on the nature of the problem. But marketing of sugar is our responsibility under the administrative control of the Ministry of Commerce and we had to discuss our marketing problems and marketing strategies with them. in addition to improving integration between the Ministry of Commerce and the Department of Food. We have also invited a representative of Food Ministry to be on our Board, who has also been associated with the Board's Special Committee on sugar and edible oil. We do discuss with them whenever there are matters to be discussed."

The Secretary, Foreign Trade, added :

> "This matter was not referred to the Ministry for advice by the STC and therefore an opportunity for the Ministry to give advice did not arise. The STC obviously dealt with this as a matter falling within their own commercial judgment and for their own reasons did not think it necessary to seek advice either from the administrative Ministry or the Food Department."

He added :

> "In the normal course, when there is a default by any party in the execution of a contract, it is the responsibility of the Board to take a decision. And STC does not have to go to the Ministry of Commerce or to the Department of Food for advice, in the normal course. If they had, however, sought our advice, we would definitely have looked into the matter; and if they had wanted the opinion of the Law Ministry, we would have obtained it. The procedure is that they have to go through us to the Law Ministry; the latter will not give it directly to the STC. We will have to go to the Law Ministry."

2.92. The Committee desired to know whether after renegotiation of the contracts in question, Cie Noga had at least taken delivery of and paid for the 60,000 tonnes of sugar sold at lower prices. The Chairman of the State Trading Corporation stated in evidence :

> "Out of this quantity of 60,000 tonnes approximately 46,000 tonnes were lifted at a price of dollars 525 and then there was failure

> again. It is the same contract which ran into difficulties and double failure."

Asked, therefore, if any action for this default had been taken against Cie Noga, the witness replied :

> "We received full payment for any goods shipped to this party and for the quantity that could not be shipped we have attached the bank guarantee for the amount available."

He added :

"We got a cash of something like Rs. 66 lakhs." The witness also informed the Committee that the State Trading Corporation was "seeking legal opinion as to what further action could be taken" against Cie Noga. In a note *furnished subsequently in this connection, the Ministry of Commerce/ State Trading Corporation have stated :

> "The question whether STC can claim any further damages from Noga for their default, has been referred to a Senior Counsel in the U.K. for his opinion. The Counsel's opinion has not yet been received. Further action in the case will be taken in the light of the opinion given by the UK Counsel."

2.93. To another question whether Cie Noga had also defaulted in any other contracts, the Chairman of the State Trading Corporation replied:

> "We purchased Technical Palm Oil from that company. We had experienced difficulty in that regard too because of the trouble in our dealings with them in regard to sugar."

2.94. The Committee desired to know whether the State Trading Corporation was still conducting business with Cie Noga. The witness stated in evidence :

> "Because of this unfortunate incident, our dealings have come to an end. . . . We have stopped all dealings with this party."

Asked whether apart from the transactions with Cie Noga commented upon in the Audit paragraph, any other sugar deals had also run into difficulties, the witness replied :

> "We are not aware of any transactions which are presently in difficulties. . . . we have not by and large had any trouble in regard to any other sugar contract other than the Noga contract."

2.95. Since it had been stated earlier by the Chairman of the State Trading Corporation (*vide* paragraph 2.84) that the loss of Rs. 14.91 crores, arising out of the transaction with Cie Noga and reflected in the Audit paragraph was "highly exaggerated", the Committee asked whether the Corporation was disputing the computation by Audit. The Chairman of the Corporation replied :

> "That depends on this. If we take the figure at the original sale price, then their figure of loss might be correct. We had to look to the prices prevailing at that time and the parties with whom we were dealing. We came to the conclusion that we might have

*Not fully vetted in Audit.

to go very carefully into this thing and so we renegotiated the contracts and we got thereby a very substantial premium over the price at which sugar could have been resold to some other party. Here it was a question of judgment as to what we would recover one's judgment might be different. We came to the conclusion that it was in our interest to seek renegotiation of the contracts with the party at prices which were substantially above what could have received from others at that particular moment of time but, admittedly, it was lower than what we had got originally when we first entered into contracts with this party."

In a note *furnished subsequently in this regard, the State Trading Corporation have stated :

"On its sugar transactions with Cie Noga, Geneva on an overall basis, STC did not incur a loss. Indeed, there has been a net gain of Rs. 10.18 crores."

A statement furnished in support of this contention is reproduced below :

1.	Notional loss on 59150 MT not lifted @ US $ 740/- (Rs. 6278·17) per MT FOBS		Rs. 37·14 crores
2.	Realisation on 45731 MT lifted @ US $ 525/- (Rs. 4638·23) per MT FOBS	Rs. 21·21 crores	
3.	By encashment of Bank Guarantee	Rs. 0·67 crores	
4.	By resale of 13419 MT @ Rs. 3793·09 per MT	Rs. 5·09 corres	
		Rs. 26·97 crores	
5.	Advantage on 180631 MT lifted by Noga during 1974-75 @ Rs. 420·00 per MT	Rs. 7·59 crores	
	Advantage on 92481 MT lifted by Noga during 1975-76 @ Rs. 1379·80 per MT	Rs. 12·76 crores	
	Total :	Rs. 47·32 crores	
6.	Net gain		Rs. 10·18 crores

2.96. The Committee desired to know the steps, if any, taken to prevent recurrence of cases such as had been commented upon in the Audit paragraph. The Chairman of the State Trading Corporation stated in evidence :

"Certain new provisions have been introduced in our contract after the lesson we learnt from this particular contract."

In this context, the Secretary, Department of Food added :

"As soon as we have the complete report....we will, in consultation with the Law Ministry, try to find out what steps we should take or how we should advise the STC to ensure that such things do not happen."

2.97. On the Committee enquiring whether any action had been taken against the agents of Cie Noga, the Chairman of the State Trading Corporation replied :

*Not fully vetted in Audit.

> "As I told you, we have now stopped dealing with Noga. I believe you are referring to Marpro. Whether it was acting as a broker or whatever other relationship, I am not aware of it. They have acted as brokers for the imported edible oil business for certain transactions with the STC and also in the export of castor oil where Marpro has acted as brokers."

Asked what had happened to the Indian representative of Cie Noga (Emgee International), the witness replied :

> "I do not know what has happened to him. We have not seen him for a long time."

A letter dated 5 November 1976 received by the Chairman of the Public Accounts Committee from Sam Marshall of Marpro, wherein it had been alleged that it was only when the S.T.C. stopped dealing with Marpro as a broker between S.T.C. and Noga after February, 1975 and started working direct through Emgee International that "the whole scene changed and Marpro had no control or influence whatsoever on the consequential results" is reproduced in Appendix XXI.

2.98. Since the Indian agents appeared to be more concerned with safeguarding the interests of their foreign principals often to the detriment of national interest, the Committee asked whether it was not possible to deal directly with the foreign firms without the intervention of agents. The Chairman of the State Trading Corporation replied in evidence :

> "We cannot stop any foreign party nominating any party in India. The role of an agent is limited to collecting documents, to monitor shipments and to report back to his Principal about the progress of a particular transaction."

He added :

> ". . . . .for the last two-three years we have been following a policy of eliminating agents and we have already succeeded to a great extent in this respect but I do not think we can altogether dispense with the system of brokers. If a foreign buyer or supplier wishes to appoint an agent here, I do not think, it would be right for us to prevent him but we do try to ascertain the background of each party and try to secure our interests to the extent possible."

The witness stated further :

> "We do employ agents in some commodities. It depends upon the nature of the business and the country we are dealing with. As far as sugar is concerned, we have never paid any commission to any agent. We receive information from all kinds of people. We receive telephone calls and listen to anything that comes our way but ultimately we sign a contract directly with the principal. This is the policy we follow in sugar business."

In a note furnished subsequently in this regard, the Ministry of Commerce/State Trading Corporation have stated :

> "In order to make efficient and economic purchases, every effort is made to ensure that purchases are made directly from the manu-

facturers. However, the Board considered this matter at a meeting held in November 1973 and a copy of the minutes is reproduced below :

Board noted that agents in India are appointed by the foreign suppliers in their own discretion and without reference to the STC.

Board further noted that even our direct trade partners from the East European countries including others with whom we have direct and special trading arrangements, have found it necessary to appoint their agents in India for marketing their products, promotion of their sales and obtaining the necessary market information. Some Board members felt that this was a normal commercial practice and STC could not be really concerned with it. It was noted that in many of the purchases of the STC, the agents even played the role of principals apart from performing such functions as obtaining enquiries, supply of quotations and even entering into formal contracts. After a detailed discussion, the following consensus emerged :

(a) STC should endeavour to enter into long term contracts for certain bulk commodities directly with manufacturers/dependable foreign supplier.

(b) The role of our foreign offices should be progressively increased and they should be associated with obtaining of offers and negotiation of prices for purchase in their country/region and given authority to conclude contracts upto an agreed value.

(c) Whenever import contracts are negotiated through the Indian agents of foreign suppliers, the details of the agency agreements should be obtained with a view to examining the extent of agent's authority, commission to be paid etc.

(d) The purchase procedures recommended by the Administrative Staff College, Hyderabad should be expeditiously examined with a view to adopting as many of their recommendations as were found acceptable.

(e) For promotion of our export items, the STC could appoint expert foreign agents abroad for certain specified periods and pay them a commission upto 5% of the contract value. Such agency agreements should be constantly reviewed and terminated if the results achieved were not upto the expectations; and

(f) It should be checked whether the agent (in respect of STC imports) has obtained RBI's clearance to act as an agent. Particulars of the agent and the amount of commission paid should be reported to RBI and Income Tax authorities.

These guidelines were communicated to Divisions and subsidiaries for compliance."

2.99. The Committee asked whether any representative of the firm of Aminchand Pyarelal by the name of Paul had played any part in the

sugar deals of the State Trading Corporation. The Chairman of the Corporation replied :

> "I am not aware of that."

In this context, the Secretary, Foreign Trade added :

> "I am aware of the presence of Aminchand Pyarelal group in London. I am certainly not aware of any such organisation's contact with STC."

Asked whether the London Manager of the State Trading Corporation had had any discussions with this firm, the Chairman of the Corporation replied :

> "Nothing has come to my notice about my branch manager having had any contacts with this party."

2.100. On the Committee enquiring whether a person called Shahani in Delhi was representing any international sugar trader, the witness replied :

> "He is a representative of a company called Goloditz."

Asked about his performance as a broker and the performance of his principals, the witness replied :

> "It is a well-known concern in London and New York. Our experience has been highly satisfactory."

2.101. The Committee pointed out in this context that rumours were often afloat in trade circles that the Indian agents of foreign firms often indulged in corrupt practices in collusion with Government officials and asked whether the State Trading Corporation maintained any watch on the activities of these agents and brokers. The witness replied :

> "We have the Vigilance Department in STC with the Vigilance Officer incharge of it. Of course, brokers, agents and employees of different companies do come and visit our offices. If we are going to do business, we have got to meet the people who come to visit our offices, talk to them, try to understand them and have exchange of views. So, the mere fact that the people visit our offices does not necessarily imply that there are unholy links."

To another question whether any of the brokers or agents had been disqualified or blacklisted, the witness replied :

> "It depends upon the experience. In the chemical field, we had some experience and we handed over distribution work to some State agencies. We do not appoint agents except in foreign countries where they have to study market trends and that too only for export contracts. We avoid appointing agents. Foreign companies may have either branches in India or may have employees in India or may appoint some persons as their agents in India."

In a note furnished subsequently in this regard, the Ministry of Commerce/State Trading Corporation stated :

> "There is no system of black-listing of Indian agents by the STC, except the provision for black-listing of firms provided for under the Import & Export Act, this power can be exercised by the

CCI&E only under the law. STC, however, as a commercial house, has certainly the right to choose its trading associates, who are able to offer mutually acceptable terms according to law."

Asked whether there was any regular exchange of information between various Government and quasi-Government agencies in regard to the Indian agents of different foreign firms dealing with the Government of India, the Ministry/Corporation replied :

"There is regular exchange of information in regard to the Indian agents of different foreign firms dealing with the STC and other Government and the quasi-Government agencies only in respect of agents or firms who have been black-listed by the CCI&E or otherwise placed on the 'caution list' circulated by the competent-authority like the CCI&E, the Ministry of Home Affairs etc."

2.102. The Committee desired to know whether any enquiry by the Central Bureau of Investigation had been initiated into the conduct of any official connected with sugar deals of the State Trading Corporation. The Secretary, Foreign Trade, stated in evidence :

"I do not think there is any enquiry concerning sugar deals, going on, not to my knowledge."

Asked whether the Executive Director who had handled the sugar transactions was reverted to his parent department on account of complaints about his unsatisfactory handling of the sugar deals, the witness replied :

"I would submit that Mr. Shukla's reversion to his parent office was not in any way due to any deal or complaint while he was in Sugar Division. One of the reasons which made the Ministry decide on his reversion was that he was on deputation terms."

To another question whether enquiries/investigations were in progress into the conduct of other officials of the State Trading Corporation, the Chairman of the Corporation replied :

"I am not sure of the exact number but there must be some 6 or 7 or 8 enquiries going on for different transactions, by the CBI against the officers in the STC."

In a note furnished subsequently, the State Trading Corporation have furnished the following information in this regard :

"Rank of the Manager(s)	Allegations in brief	Remarks
CMM. Gr. II	Alleged to have shown favours —in the allocation of certain imported chemical item.	Investigation report under consideration.
CMM. Gr. I	—to parties in certain purchase operations/appointment of clearing agents.	Under examination of Internal Audit.
Ex. Director/CMM/DMM Gr. II/Gr. I	—in awarding contract for supply of uniforms against an Iraq Govt. contract.	Investigation Report awaited form C.B.I.
CMM/DMM .. .. Gr. I/Gr. I	—in the appointment of handling agents/surveyors.	Under investigation.
CMM Gr. I	—in award of a contract for export of cotton packs/jute goods.	CVC's advice on the Enquiry Report under consideration of BPE (the Officer's authority).

Rank of the Manager(s)	Allegations in brief	Remarks
	—in the award of a contract for supply of newsprint.	Enquiry proceedings pendig before the Commissioner for Departmental Enquiries.
	—in the award of contract for transhipment of a consignment.	Under investigation of CBI.
	Unauthorisedly recommended an Indian resident in USA to foreign businessmen to derive personal gains.	CBI's Report under examination.
	—Disproportionate assets.	Under investigation of CBI.
	Wrongful claim of LTC for his son.	Do.
	Negligence in allowing price rise to a firm for imported precision measuring tools.	Case being processed for awarding a penalty.
	—Disproportionate assets.	Under investigation of CBI.
	Got contract signed for the imports of non-permissible item.	Final show-cause notice for Dismissal issued on CVC's advice.

. . . . . .

SCALE OF PAY :

Director	Rs. 2500—3000
CMM Gr. I	Rs. 2250—2500
CMM Gr. II	Rs. 1800—2250
MM	Rs. 1300—1900
DMM Gr. I	Rs. 1050—1550
DMM Gr. II	Rs. 750—1250"

Asked whether the Corporation had ever tried to verify whether officials of the State Trading Corporation maintained bank accounts in foreign countries, the Chairman of the Corporation replied :

> "How do you expect me to go round the world and look into this affair ?"

F. *General*

2.103. The Committee desired to know whether on the basis of the experience gained by the State Trading Corporation in sugar exports, the Corporation had evolved any strategy for exports so as to reduce costs and maximise export earnings. The Chairman of the Corporation stated in evidence :

> "In the light of the experience that we had gathered, we made certain proposals to the Ministry of Commerce giving them our views on what kind of strategy we ought to follow for building up exports of sugar on a permanent basis. We have made suggestions regarding holding of buffer stocks, regarding selection of specific mills which might produce good quality sugar, regarding choice of

mills which would be nearer the ports so that the transport costs would be low etc. This note, I understand, was discussed between the Ministries of Commerce and Food. I am, however, not aware of the latest progress. It is being considered by the Government, I am told. We have made a number of suggestions; some may be workable and some may not be acceptable to them. We have put down our experience on paper."

State Trading Corporation also furnished subsequently to the Committee a copy of the note submitted to the Commerce Ministry containing proposals on the export strategy for sugar, which is reproduced in Appendix XXII. The Corporation added that it was understood that "the proposals are under the consideration of the Government." In another note indicating the action taken by Government in pursuance of these proposals, the Ministry of Commerce have stated :

"The proposals made by the STC were considered by the Government. Having regard to the nature of issues involved, it was felt that it would not be desirable to announce decisions on them. Government, therefore, decided that the Committee at the working level consisting of the Food Secretary, the Commerce Secretary, the Chief Economic Adviser and the Chairman, STC, already in existence, should keep the situation under review and take appropriate decisions from time to time."

2.104. To another question during evidence whether the Corporation had studied in depth the possibilities of maximising export earnings by exports of sugar in a processed form and by improving the quality, size and colour of the crystals in order to obtain higher unit value realisations, the Chairman of the Corporation replied :

"We have recently sold one lot of sugar cubes which gave us a higher price unit value as compared with sugar in bags. We are experimenting about change in packing also. Instead of 100 kg., we are packing 50 kgs. in the bags and giving a polythene lining inside the jute bags. These are still in the stage of experimentation."

He added :

"At the moment, capacity of manufacture sugar cubes is limited; it is being manufactured for the internal market. If we find that after first shipment, this is a success, we would arrange in consultation with the Department of Food for the setting up of further capacities for manufacturing sugar cubes."

In a note furnished subsequently, the State Trading Corporation have stated :

"STC has taken the following steps in an effort to obtain a higher unit value for sugar exports :

(a) Export of sugar are now being confined to Colour 30. Earlier sugar of 29 Colour which is less white, was also being exported.

(b) In regard to packing, as a trial measure, the STC has arranged for one cargo, *i.e.* about 12,000 tonnes of sugar, to be packed in 50 kg. jute bags (as compared to the traditional packing in 100 kg. jute bags which is considered outmoded in international markets).

(c) Our attempts to secure added value realisation resulted in the initial sale of sugar cubes to a French firm. This effort is being pursued.

In regard to fresh markets, Iraq Government were pursuaded to purchase one shipment of 10,000 tonnes of Indian sugar which they normally do not purchase because of their being accustomed to sugar of better quality from other sources."

2.105. The Committee enquired into the steps, if any, taken for maximising sugar exports to the petro-dollar countries in the Middle East and the immediate as well as long-term measures for the export of sugar to these and other non-traditional countries which might have a potential for Indian sugar. In a note, the State Trading Corporation have replied :

"The STC was entrusted with export of sugar around the 10 April 1974. Immediately thereafter—between the 19 and the 26 April 1974—STC sent offers for supply of sugar to Behrain, Kuwait, Dubai, Abu Dhabi and Tehran, through the Indian embassies/missions at these places.

About the middle of May 1974, offers were again sent to the Indian embassies at Damascus, Muscat, Baghdad, Tehran, Behrain, Abu Dhabi, Amman and Kabul. There was practically no response to all these offers.

On 9-7-1974, when STC issued a tender for sale of sugar, Indian Embassies at the above mentioned places were also notified. Simultaneously, Ambassadors of these countries stationed in New Delhi were also contacted. Only one bid was received from the Ministry of Supply, Amman—but the price offered was extremely low.

Opportunity has been taken by STC to discuss possibilities of export of sugar whenever Government delegations from the Middle East countries have visited New Delhi.

Further, STC also participated in tenders issued from time to time by countries like Egypt and Jordan.

Shipment of Indian sugar effected to the Middle East countries are given below :

(QUANTITY LAKH MT) (RS. CRORES)

	1974-75		1975-76	
	Quantity	Value	Quantity	Value
Egypt	0·37	19·90	1·80	61·62
Sudan	0·74	39·47	0·58	25·86
Jordan	0·23	11·62	0·20	6·11
Iran	2·55	134·94	3·33	185·98
Iraq	..	..	0·09	2·81
Afghanistan	..	..	0·21	7·40
Qatar	0·015	0·91	..	..
	3·905	206·87	6·22	289·73

The main reason for lack of interest of the Middle East countries in Indian sugar appears largely to be their preference for a better quality of sugar for which they have the capacity to pay. For improvement of quality of Indian sugar, some suggestions have already been made to Government. These include :

— earmarking for export the best quality of sugar produced in the country;

— consideration being given to setting up of composite sugar refineries for producing exclusively for export refined sugar conforming to internationally acceptable standard; and

— introducing of 50 kg. poly-lined jute packing which is preferred in foreign markets etc.

The above suggestions are under the consideration of the Government."

2.106. The Committee are concerned to note that while on the one hand, Ministry, by its inept handling of the situation, had to incur an extra expenditure of Rs. 5.68 crores on the procurement of sugar for export, the State Trading Corporation, on its part, had concluded a number of export sales at rates below the then prevailing international prices and that its failure to enforce the contractual provisions in regard to breach of contract in a specific case of default had resulted in the short-realisation of a staggeringly large sum of Rs. 14.91 crores (£ 78.95 lakhs). Despite all protestations to the contrary, the committee cannot help feeling, on the basis of the facts disclosed in the Audit paragraph and the evidence tendered before them, that the final picture which emerges of the Corporation's performance is anything but satisfactory. In particular, they are, to say the least, thoroughly dissatisfied with the manner in which certain deals were concluded with a commodity trader not normally in the international sugar business in preference to other leading and better known sugar trade houses and concessions were extended to him to the detriment of the country's interests even after he had defaulted in the performance of his contracts. This case, as the discussions in the foregoing paragraphs would indicate, also gives rise to suspicion of malafide intentions on the part of those concerned.

2.107. To begin with, the Committee find from the Audit paragraph that while the Department of Food, before the responsibility for sugar exports was entrusted to the State Trading Corporation on agency basis, had all along finalised contracts for the sale of raw sugar under the U.S. Sugar Act at prices determined on the average of the prices of the Spot Contract No. 10 quoted (in terms of U.S. Cents per pound c.i.f. duty paid delivered basis) by the New York Coffee and Sugar Exchange for the period from March to September/October of that year plus a fixed premium, all the sales effected under the Act by the State Trading Corporation were below the U.S. domestic questions. Thus, in respect of contracts concluded between 24 and 31 May 1974 for a total quantity of 75,000 tonnes of raw sugar to be shipped during June-August 1974 (actual quantity shipped : 74,732 tonnes), the sale prices obtained by the corporation worked out to 19.46 and 19.37 Cents per pound (f.o.b.), equivalent to only 22.58 and 22.49 cents per pound c.i.f. U.S. port duty paid delivered basis, as against the Spot Contract No. 10 prices of 23.25 Cents per pound on 15 May 1974 and 24.25 Cents per pound from 24 to 31 May 1974. According to Audit,

these sales below the then prevailing No. 10 Contract prices had resulted in an amount of US Dollors 27.79 lakhs (Rs. 2.23 crores) being realised less.

2.108. It has, however, been contended by the State Trading Corporation that the alleged loss of Rs. 2.23 crores would not arise "if the sales are evaluated with comparable and relevant data" and that since the actual shipments against these contracts were made much later (June-August 1974) and the shipments would take about eight weeks to arrive at U.S. ports, it would not be correct to compare the prices obtained by the Corporation for distant deliveries either with the terminal prices obtaining on the New York Coffee and Sugar Exchange on a given date for prompt delivery (spot prices) or with prices realised on those dates by other sugar exporting countries for prompt deliveries. It has been further argued that the sale prices should more appropriately be compared with the corresponding terminal 'futures' quotations having regard to the expected time of arrival at U.S. ports of shipments effected by the Corporation. On this basis, it has been claimed that the State Trading Corporation had actually commanded premia ranging from 10 to 60 dollars per tonne on the sales concluded in May 1974 under the U.S. Sugar Act, which resulted in the realisation of a total premium of US Dollars 22.98 lakhs over the No. 10 futures quotations on the dates of sale applicable to the period when the cargoes sold by it were likely to arrive at US ports.

2.109. The Committee, however, find that even if the then ruling trends of 'futures' quotations on the New York Coffee and Sugar Exchange are taken into account, the prices obtained by the State Trading Corporation were comparatively less. A study of the then prevailing market trends seems to indicate, prima facie, that the State Trading Corporation had not taken full advantage of the bullish trend during this period of the international sugar market caused by a continuing tight supply/demand situation. According to a fortnightly newsletter published by a New York sugar broker (Czarnikow—Rionda Company, Inc.), the tight supply/demand situation which had become evident in April 1974 had continued during May and June 1974, as a result of which the domestic raw sugar market had ruled firm. Pointing out in this context that during this period the trade remained "very much on a hand-to-mouth basis being forced to do so by a lack of plentiful supplies", the broker had gone on to predict, in his newsletter of 9 May 1974, that on account of the early conclusion of the harvest and crushing operations of the Cuban 1973-74 sugar crop coupled with the reduction of the area under beet in Europe, hopes of a European bumper crop and a possible relief from the then current tightness late in the year or early in 1975 had dimmed. Again, on 23 May 1974, the broker had indicated that the market was expected to remain firm unless and until additional prompt supplies could be found "to relieve a situation in which refiners find themselves with very low sugar stocks."

2.110. The Committee further find from these fortnightly newsletters that during the fortnight ending 25 April 1974, futures quotations on the New York Coffee and Sugar Exchange had advanced over the entire range of delivery months and that after reaching a high of 24.70 Cents per pound on 22 April 1974 and declining slightly for May deliveries, the prices for July and September deliveries had registered solid gains of 295 and 244 points respectively. Subsequently, during the fortnight ending 9 May 1974, record high prices were reached on 8 May 1974 in the New York No. 11

futures market, when the July 1974 contract traded at 25.15 Cents per pound and closed at 24.50 Cents per pound, representing a gain of 307 points, while September and October contracts closed at 22.51 and 22.41 cents per pound respectively, registering gains of 341 and 355 points. However, despite the firm tone of the actuals market (spot quotations) and the continuing signs of a tight supply/demand position, futures values for July, September and October deliveries declined during the fortnight ending 23 May, 1974 by 236, 243 and 226 points respectively to 22.14, 20.08 and 19.15 cents per pound, presumably because of the apparent desire on the part of the US refiners to use their buying power on the acquisition of prompt deliveries of raw sugar so as to keep their refineries running in the context of an increasing realisation that the tight supply/demand position would persist in the second quarter of the year and also possibly continue through the third quarter.

2.111. Commenting on this decline in futures values at a time when supplies were at their tightest, the New York Sugar broker (CRCO, Inc.) had pointed out, inter alia, on 23 May 1974, that the decline was attributable to factors which were beyond the scope of the sugar market like general speculator sentiment, prices of other commodities, foreign exchange adjustments, inflationary pressures and general economic and political uncertainties of various types. While conceding in this context that it would be futile to argue whether the then prevailing spot quotations or the futures quotations were the correct indices under the then existing supply and demand conditions, the broker had nevertheless gone on to observe that though the market was "slightly tested" during the week with futures values declining, "a major downward move in sugar values" was unlikely at that juncture and "not sustainable for any length of time".

2.112. That this decline in the futures quotations was only a temporary phenomenon would be evident from the fact that during the subsequent period (May 24—June 20, 1974), the futures values generally followed the firmer lead of the actuals market (spot quotations). Thus, during the fortnight ending 6 June, 1974, the period when the State Trading Corporation had concluded its sales of raw sugar at the c.i.f. US ports (duty paid delivered basis) prices of 22.58 cents and 22.49 cents per pound, the futures quotations on the No. 10 Contract had closed on 6 June 1974 at 25.20/25.00, 24.60/25.00 and 23.90 cents per pound respectively for July, August and September deliveries and at 21.87 cents per pound for October deliveries. Again, on 20 June 1974, the futures quotations for September deliveries had closed at 24.75 cents per pound.

2.113. It is also significant in this context that while the f.o.b. prices obtained by the Corporation ranged between U S Dollars 427 and 429 per tonne (19.46 and 19.37 cents per pound), three Columbian shippers had combined to sell 12,000 tonnes raws, to be shipped in the first half of August, in tender to a New York Trade House at a price of U S Dollars 494 per tonne (f.o.b.) and sellers from Salvador had also similarly placed 4,000 tonnes, July/August shipment, with another Trade House at a reported f.o.b. price of 22.68 cents per pound. The rising trend of the futures market would also be evident from the fact that on 5 June 1974, the New York subsidiary of a Paris Trade House had won a tender in the Dominican Republic, paying even for a shipment to commence as late as in March 1975, nearly nine months later, the price of 19.515 cents per pound (f.o.b.), which was about 150 points above the equivalent New York quotation on

that day. Even during the subsequent periods (June 7—June 20, 1974 and June 21—July 11, 1974), considerable quantities of raw sugar had changed hands at prices higher than that obtained by the State Trading Corporation for deliveries during August to October 1974 as detailed below :

(i) During the period 7 June—20 June, 1974, Salvadoran sellers had placed in tender 4,000 tonnes for July/August shipment with a New York Trade House at 24.786 cents per pound (f.o.b.).

(ii) Even in respect of October shipments, two lots (10,000 tonnes each) of Peruvian raws had been sold to New York Trade Houses at U S Dollars 21.146 per 46 kils FAS ($ 459.50 per tonne) and U S Dollars 21.201 per 46 kils FAS ($ 460.90 per tonne).

(iii) As late as on 8 July 1974, in a tender in Columbia, a Northern Refiner had bought through a Trade House a cargo of 12,000 tonnes Columbian raws, for shipment by vessel to present August 25/September 10, at a reported price of U S Dollars 513.425 per tonne, f.o.b.

2.114. It would, therefore, appear that except in respect of a quantity of 14,000 tonnes shipped in August 1974 and which would have been delivered at U S ports during October 1974, the State Trading Corporation had failed to take full advantage of the admittedly tight supply/demand position of the raw sugar market and the consequential rising trend of raw sugar prices and had instead sold its cargoes at an inopportune moment when there was a temporary slump in the futures values. It would also appear that the Corporation had not fully appreciated certain developments on the international sugar front such as the inauspicious start of the European beet season, serious damages to the beet crop on account of adverse weather conditions and the need for resowing in certain areas, the unsually early conclusion of the Cuban Sugar season, etc. so as to exploit the situation to the country's advantage. The Committee consider it regrettable that the State Trade Trading Corporaion had not assessed the market situation properly and taken care to ensure that its sales were effected at the most appropriate time and at the most advantageous prices.

2.115. The incorrect appreciation of the behaviour of the sugar market had also led to the rejection by the State Trading Corporation of the offers received from three reputed trade houses for the total quantity on the average pricing pattern which, if accepted, would have given an additional price advantage of Rs. 12.46 crores to Government. The Committee were surprised to learn that in spite of the firm tone of the raw sugar market and the fact that the international prices of sugar had started rising sharply from the middle of July 1974, the State Trading Corporation had left these bids out of account on the assumption that the international sugar market would enter a period of lower price levels from the earlier high levels. In the context of the then prevailing bullish trend of the market, which has been discussed at some length in the foregoing paragraphs, this was a somewhat facile assumption to make and the Committee are, therefore, not entirely satisfied with the explanation of the State Trading Corporation.

2.116. A similar disconcerting picture also emerges in respect of sales of white sugar by the State Trading Corporation. The Committee note that while the f.ob. prices obtained for Indian White Sugar between 17 April 1974 and 16 July 1974 were substantially higher than the London daily prices (LDP) for raw sugar (c.i.f. Caribbean ports), the f.o.b. prices obtained from exports of Indian White Sugar during the period 22 July 1974 to 23 Septemper 1974 were on three occasions slightly higher, on two occasions equal to and on the four remaining occasions lower than the London daily prices for raw sugar. Further, though international prices of sugar started rising rapidly from the middle of July 1974 and the London daily prices rose by 44 per cent from £ 250 to £ 360 per ton between 16 July 1974 and 23 September 1974, the f.o.b. price for Indian White Sugar rose during the same period by about 26 per cent only from £ 270 to £ 341 per tonne.

2.117. Explaining the reasons for not availing of this price rise and selling sugar at lower prices during July-September 1974, the Chairman of the State Trading Corporation informed the Committee during evidence that while the prices quoted on the London market were certainly indicative of the market conditions and the market did rise in August and September, large quantities of sugar could not be accumulated and shipped at one time in the hope that prices would rise. Besides, sales could be effected only according to a programme depending on the availability of buyers. It has been further contended that depending upon the demand at any point of time for Indian Sugar, the rates of premium vary and cannot strictly correspond to the actual premium commanded by other international suppliers and that the prices obtained by the State Trading Corporation compared favourably with those obtained by other countries.

2.118. The Committee are, however, unable to appreciate the logic of these arguments. The fact remains that during this period, when the sugar market continued to rule firm and there was little to indicate that the supply situation was becoming less tight, as many as nine cargoes had been sold by the Corporation. It was, therefore, not an instance of stocks not being available to take advantage of the rising prices. Besides, in view of the fact that a sellers' market existed during this period on account of a continuing tight supply/demand situation, the Committee see no reason why higher premia could not have been commanded for Indian sugar. It is also significant that certain other developments on the international sugar front such as the lower yields from the beet crop in some European countries, failure of the beet crop in the United Kingdom on account of virus infections, the suspension in August 1974 by the U.S. Department of Agriculture of the restriction on import of sugar in the USA during the remaining months of 1974, etc., had taken place at that time. The Committee cannot, therefore, resist the impression that adequate advantage had not been taken of the rising trend of the market at that time by the State Trading Corporation and that such a situation could well have been avoided by a more intelligent and scientific assessment of the market conditions and a better planning of the sales strategy.

2.119. In this context, the timely and regular collection and collation of data in regard to world market conditions and price trends assume great importance. Since the success or failure of the export strategy depends to a very large extent on a proper appreciation of the market situation at a given point of time, the Committee need hardly emphasise the importance

of the exporting agency being armed with all relevant data relating to international production trends, availability of and demand for sugar, behaviour of world prices, recent happenings on the world sugar front, etc. so as to be in a position to regulate export sales in the best interest of the country. It would, however, appear from the facts brought out in the foregoing paragraphs that despite the existence of an apparently elaborate machinery in the foreign offices of the State Trading Corporation and its Management Services Division for the collection and analysis of market intelligence, the Corporation's performance in this important sphere has been somewhat unsatisfactory. The impression in the Committee's mind that only comparatively junior officers with limited expertise and experience and inadequately trained in the nuances of gathering information of commercial value are posted in the Corporation's foreign offices also needs to be dispelled. The Committee would, therefore, urge the State Trading Corporation and the Commerce Ministry to review comprehensively the adequacy of the existing arrangements for the collection and collation of market intelligence so as to take necessary remedial measures for improving their usefulness. An effective channel of communication should also be maintained between the Corporation's Commercial Counsellors, Embassies and other agencies abroad entrusted with the collection of market intelligence so as to ensure the timely and efficient exchange of information which could form the basis for the determination of the strategy to be adopted.

2.120. The relatively lower realisations obtained by the State Trading Corporation from its sugar sales also give rise to doubts in regard to the efficacy of the modality adopted by the Corporation for concluding export sales. The Committee note in this connection that while the Department of Food used to sell sugar for export through open tenders, which is the normally accepted method of purchase or sale and also a well recognised international trade practice, the State Trading Corporation had adopted the 'bid system' under which contracts were entered into through restricted negotiations with international sugar and commodity traders. Justifying this deviation from the open tender system, the Commerce Ministry have stated that "it was felt that better prices would be realised if sales were made against specific enquiries and market demand rather than through tenders when the market may lack the necessary buying strength." The State Trading Corporation have further informed the Committee that there was no specific advice from Government that it should follow the open tender system in its sugar sales and that, in its commercial judgment, after an attempt at floating a tender on 9 July 1974 which was not "particularly encouraging", the Corporation had taken the view that the bid system, which provided flexibility in negotiations and enabled maximum and prompt advantage being taken of the market situation at any particular point of time, was likely to secure the best prices.

2.121. It has also been brought to the Committee's notice that while the open tender system had built up administrative safeguards and would theoretically permit all interested parties to participate, it suffers from the following disadvantages :

(a) Time is lost in a tender as a few days notice has necessarily to be given to enable parties to submit offers.

(b) The timing of a tender issued in the absence of a specific demand from buyers does not evoke the best response.

(c) The time of delivery has a direct bearing on the price realisation and since the delivery period, in a tender, is stipulated by the seller, it may or may not suit the buyers' requirements.

(d) A tender system is less elastic and the bidders have to provide a cushion in the prices offered to cover the risk over a longer period for which the offer has to be kept valid as against a bid, the validity could be for a short period, even for an hour or less.

2.122. While the Committee are not unwilling to concede that it might perhaps be difficult and impractical to prescribe a rigid methodology of sales and that a decision in regard to the system to be adopted would have to be taken with reference to the situation prevailing at a particular point of time, they, however, find that the Special Committee on Sugar, at its first meeting held on 13 March 1974, had decided, inter alia, that quantities, other than those sold by bilateral negotiations on a Government to Government basis, would be sold by the State Trading Corporation by international tendering. Besides, since a sellers' market existed during the period under review, the Committee feel that better results might have ensued had sales been effected through tenders. This is also borne out by the fact that compared to the prices obtained by the State Trading Corporation by adopting the bid system, substantially higher prices had been obtained in tenders floated by other countries like Columbia, the Dominican Republic, Salvador, etc. Since the bids are valid only for very short periods, even an hour or less in some cases, and the stakes involved are also very high, the Committee also apprehend the possibility of the unfettered discretion that appears to vest in individual officials of the Corporation for finalising deals and obtaining subsequently the ex-post-facto approval of the Board being abused. This fear stems from the fact that out of 21 contracts concluded by the Corporation between 17 April 1974 and 23 September 1974, as many as 9 contracts had been confined to one commodity trader, dealings with whom have been examined in some detail later, while the remaining 12 contracts had beeen distributed amongst 5 other better known sugar trade houses.

2.123. In these circumstances, the Committee would like the Ministry to make a comparative study of the methodologies adopted by the Department of Food and the State Trading Corporation as well as those adopted by other countries so as to determine, inter alia, whether there were any deficiencies in the method adopted by the Corporation and to see what improvements could be brought about in the present methods to ensure that sugar sales are effected at internationally competitive prices and the country is not placed at a disadvantage vis-a-vis other sugar exporting countries.

2.124. One of the reasons for transferring the work relating to sugar exports to the State Trading Corporation from the Department of Food was that the Corporation which had its organisation abroad would be in a better position to obtain market intelligence and get better value for the sugar being exported. However, in the context of the actual performance of the State Trading Corporation, it is a moot point whether these expectations have been fulfilled in actual practice. The Committee are, therefore, of the view that it would be worthwhile to undertake a comparative study of the economics of exports effected through the Department of Food and those handled by the State Trading Corporation, with a view to identifying

the areas of divergence and the causes for the somewhat lacklustre performance of the latter. The proposed study should also specifically examine in detail the reasons for the comparatively lower realisations accruing from the exports of Indian sugar at a point of time when the international sugar prices were rising sharply. The study, which assumes particular improtance in the context of recent reports appearing in certain sections of the press of allegations of "widespread malpractices" in sugar exports by the State Trading Corporation, the general thrust of which was that many export deals were struck at rates below the international prices, there were unnecessary or inflated payments of commissions to brokers and under-invoicing of exports with a kick-back from the buyer going into secret bank accounts, should be entrusted to an independent agency unconnected either with the State Trading Corporation or the Department of Food.

2.125. As stated at the outset, the Committee are, in particular, thoroughly dissatisfied with the handling of the sugar deals with a commodity trader (Cie Noga of Geneva) not normally in the international sugar business and the re-negotiation of the contracts concluded with him to the detriment of the country's interests. The Committee note that out of 6.32 lakh tonnes of sugar sold by the State Trading Corporation between April 1974 and March 1975, contracts had been concluded with Cie Noga for as large a quantity as 2.84 lakh tonnes [2.09 lakh tonnes upto August, 1974 at prices ranging between £ 267 and £ 315 per tonne f.o.b. and 0.75 lakh tonnes between December 1974 and March 1975 (0.11 lakh tonnes at $ 1135 per tonnes f.o.b. in December 1974, 0.31 lakh tonnes at £ 295 per tonne f.o.b. on 10 March 1975 and 0.33 lakh tonnes at £ 311.30 per tonne f.o.b. on 17 March, 1975] and that while the contracts upto August, 1974 had been fully implemented, Cie Noga had taken delivery of only 0.12 lakh tonnes against the contract of 10 March 1975 for 0.31 lakh tonnes and had defaulted in the performance of the other two contracts entirely and of the 10 March 1975 contract partially. Strangely enough, however, instead of taking recourse to the contractual provisions in regard to breach of contract, the State Trading Corporation had entered into a fresh contract, in July 1975, for 0.60 lakh tonnes in lieu of the rescinded contracts at the price of $525 (£ 219.39) per tonne, on the ground that prospects of recovery of claims in the event of starting litigation were poor. As compared to the prices in the rescinded contracts of December 1974 and March 1975, the renegotiation of the contracts with Cie Noga had resulted in the short realisation of an amount of £78.95 lakhs (Rs. 14.91 crores).

2.126. The Committee are concerned to find that before entering into such high-value contract with a newcomer in the sugar business the State Trading Corporation had not thought it fit to make any enquiries in regard to the antecedents, financial position and other relevant details in regard to Cie Noga and that it was only more than two years later, in June 1976, after Cie Noga had defaulted, that some attempt had been made to conduct some enquiries through the London branch of the State Bank of India in regard to the financial standing of the Geneva-based trader. While the Secretary, Foreign Trade, was good enough to concede that the State Trading Corporation should have verified properly the bank credentials of the party before awarding big-value contracts, the State Trading Corporation have informed the Committee that prior to commencement of sugar exports, the Corporation had had an earlier dealing with Cie Noga in 1972 for the import of rapeseed oil where the performance "was satisfactory". The

Committee have been further informed that the first offer for purchase of sugar from Cie Noga was received through Marpro, a London firm of brokers, who had earlier rendered competitive service to the Corporation and that "in view of previous relations", it had not been considered necessary to verify Cie Noga's standing.

2.127. It would, however, appear from the facts made available to the Committee that prior to 19 April 1974 when the first sale of 11,000 tonnes of sugar was concluded with Cie Noga on the basis of an offer received from Marpro, the dealings of the State Trading Corporation with the London firm of brokers had been confined mainly to imports and exports of oils and only one contract for the import of 10,000 tonnes of Rapeseed Oil had been entered into with the principals, Cie Noga, some 18 months earlier, on 29 November 1972. In these circumstances, the Committee are unable to appreciate the rationale for the State Trading Corporation having rushed into commitments with Cie Noga without adequately verifying the firm's standing... It is also somewhat strange that in spite of the fact that Cie Noga was a new entrant to the sugar business and the value of the contract was also over Rs. 5 crores, the first sale had been concluded without any reference to the Board of Directors of the State Trading Corporation at the level of the then Director in charge of sugar exports and had only been ratified subsequently by the Board.

2.128. It has also been contended that the non-verification of the credentials of Cie Noga notwithstanding, the performance of Cie Noga "was fully satisfactory" on every count till the later-contracts of December 1974 and March 1975 had run into difficulties and that the prices offered by the firm were, in almost all the cases, higher than what was being offered by other parties and at which sugar was being sold to other parties. In this connection, the Committee find that while the contracts concluded till 27 August 1974 for a total quantity of 2.09 lakh tonnes had been fully implemented, a contract for the export of 10,000 tonnes of Basmati Rice concluded with the same firm on 28 August 1974 had also run into difficulties prior to the further sales of sugar effected in December 1974 and March 1975, as only a quantity of 5,000 tonnes had been limted by Cie Noga and an amount of $ 2.50 lakhs had been realised as liquidated damages from the firm for the default. It is also significant in this context that out of 13 sales made to Cie Noga between April 1974 and March 1975, prior approval of the Board of Directors of STC/the Sugar Exports Sales Committee (SESC) had been obtained only on four occasions. It would, therefore, appear that in respect of a majority of the transactions, the Board/SESC had been presented with a fait accompli.

2.129. Another reason attributed by the Commerce Ministry for the selection of Cie Noga for the sale of Indian sugar was that the Foreign Offices of the State Trading Corporation "were constantly on the look-out" for competitors to the traditional traders in sugar "so as to broad-base, to the extent possible, the bidding and demand for Indian sugar". Yet, surprisingly enough, apart from Cie Noga, the State Trading Corporation had not been able to induce any other non-traditional competitors to make a successful bid for Indian Sugar, though as many as 76 enquiries/references/bids were stated to have been received during 1974-75 from Government agencies, foreign/Indian Companies, etc.

2.130. Yet another significant fact which emerges from the evidence is that two other leading trade houses in sugar (Sucres and Danres, Paris and E.D.F. & Man, London), who had not got any contract for the purchase of Indian sugar except for a quantity of 0.33 lakh tonnes and 0.36 lakh tonnes sold in April 1974 and March 1975 respectively, had actually repurchased 1.67 lakh tonnes, out of 3.46 lakh tonnes shipped upto December 1974, from those with whom these contracts were entered into, the principal one of which was Cie Noga. It has, no doubt, been contended by the State Trading Corporation that there was "nothing unusual or mysterious" about such transactions since it was "quite common for cargoes to change hands frequently before finding a final home". However, having due regard to the fact brought out earlier in this Report that sales of white sugar had been effected by the Corporation between July and September 1974 at prices below the then ruling international prices, the Committee cannot resist the impression that Cie Noga had entered the sugar market more as a speculator and that having purchased sugar at lower prices from the State Trading Corporation when the market was bullish, had succeeded in re-selling the quantities at higher prices, thereby reaping considerable benefits at India's expense and that when the international prices started coming down subsequently from January 1975, the firm had contrived to wriggle out of its commitments to take delivery of the subsequent cargoes contracted at higher prices. This impression of the Committee is also reinforced by the fact that while the contract in respect of the quantity of 11,000 tonnes sold on 19 December, 1974 had been duly signed and returned by Cie Noga on 21 January, 1975, two other contracts in respect of the sales concluded on 10 and 17 March 1975 had not been received back, duly signed, by Cie Noga. Significantly enough, no reasons were also given by the firm for not returning these contracts.

2.131. The Committee find that the contracts entered into by the State Trading Corporation for sale of sugar to free world distinations provide, in the event of breach of contract, for arbitration by the Council of Refined Sugar Association, London, whose decision is enforceable in law in the United Kingdom. Yet, instead of taking recourse to this provision, the Corporation had rescinded the three contracts which had not been implemented by Cie Noga and executed a fresh contract for 60,000 tonnes at the price of $ 525 (£ 219.39) per tonne in July 1975. Even after re-negotiation of the contract, there had been a further default in the performance of the contract, as only about 0.46 lakh tonnes had been lifted by Cie Noga. The Committee have been informed that while full payment had been received for the quantities shipped (45,731 tonnes), an amount of Rs. 0.67 crore had been realised in respect of the quantity not lifted (13.419 tonnes) by encashing the bank guarantee. A further sum of Rs. 5.09 crores is also stated to have been realised by the resale of the quantity not lifted at Rs. 3,793.09 per tonne, as against the price of $ 525 (Rs. 4638.23) per tonne finalised with Cie Noga.

2.132. The failure of Cie Noga to lift 0.63 lakh tonnes of sugar out of the total quantity of 0.75 lakh tonnes purchased by them in December 1974 and March 1975 has been attributed to the following :

(i) A sharp fall in the international sugar prices soon after the finalisation of the contracts in question;

(ii) the problems raised by Cie Noga's ultimate buyers (Sudan) about honouring their purchase commitments with the firm; and

(iii) Cie Noga's inability to raise finance for payment to STC against the 360 days' Sudanese letter of credit held by them.

Asked to indicate the reasons for not resorting to legal action against Cie Noga for its default, in terms of the contract, and for renegotiating the contracts at a lesser price, the Committee have been informed, inter alia, by the State Trading Corporation that in the context of a declining market, "a settlement with Nogas actually offered a better alternative to making a distress sale or lose the opportunity of actual shipment by getting involved in litigation/arbitration". It has been further stated that a resort to litigation was not favoured as legal proceedings besides being time consuming would have involved expenditure in foreign exchange without certainty as to the final outcome and that while legal action in individual cases could perhaps lead to a questionable advantage, in view of the fact that the repurcussions of such actions generate considerable illwill, international trading houses often resolved disputed claims and counter-claims by mutual consultation rather than by resorting to arbitration or legal action.

2.133. It also appears from the evidence that the decision of the State Trading Corporation to accept the re-negotiated proposal of Cie Noga had been considerably influenced by the fact that two of the disputed contracts (10 and 17 March, 1975) had actually remained unsigned and that the legal repurcussions of this situation might not have strengthened the Corporation's position vis-a-vis that of Cie Goga.

2.134. While conceding that the realisations from these transactions with Cie Noga were lower than what the Corporation would have got had the original contracts been enforced, the Chairman of the State Trading Corporation has, however, argued that if an objective view were to be taken of the whole episode, the Corporation had actually benefited from its association with Cie Noga. It has been further contended that on an overall basis the Corporation had not incurred a loss on its sugar transactions with Cie Noga and that the transactions had in fact resulted in a net gain of Rs. 10.18 crores. Certain statistics in support of this contention have also been furnished by the Corporation, from which the Committee find that the national loss of Rs. 37.14 crores arising out of the failure of Cie Noga has been sought to be set off not only against the subsequent realisations from the re-negotiation of the disputed contractor (Rs. 21.21 crores), the amount realised by encashment of bank guarantee (Rs. 0.67 crores), and the amount realised by the resale of the quantity not lifted by Cie Noga against the re-negotiated contract (Rs. 5.09 crores) but also against the monetary advantage alleged to have accrued from other sales to Cie Noga during 1974-75 (Rs. 7.59 crores) and 1975-76 (Rs. 12.76 crores).

2.135. The Committee are, to say the least, surprised by these arguments. It would appear, prima facie, that greater concern had been shown by the State Trading Corporation for extricating Cie Noga from its difficulties, alleged and real, than for safeguarding Government's interests. Since the fact that two of the disputed contracts had not been duly signed by Cie Noga also appears to have influenced the decision to accept the re-negotiated proposal, the Committee see no reason why these could not have been got executed promptly after the deals had been struck with Cie Noga on 10 and 17 March 1975, instead of waiting till 8 May 1975 when STC's standard contracts were forwarded for signature to Cie Noga by the London Office of the Corporation despite the fact that they had been

asked on 31 March 1975 itself to forward these contracts. In any case, the Committee are doubtful how far this would have come in the way of the Corporation enforcing its claims in view of the fact that Cie Noga had partially implemented the contract of 10 March 1975 by lifting a quantity of 12,100 tonnes out of 31,000 tonnes against this sale.

2.136. What is even more surprising is the fact that though the State Trading Corporation was only acting as an agent of the Department of Food, it had never sought the advice of that Department before taking a decision to rescind the disputed contracts and conduct negotiations with Cie Noga for the execution of a fresh contract; nor was the matter referred to the administrative Ministry (Ministry of Commerce) so as to obtain the Law Ministry's opinion. The Secretary, Foreign Trade, while informing the Committee in this context that in the normal course, if there was a default by any party in the execution of a contract, the State Trading Corporation did not have to go to the Commerce Ministry or the Food Department and that in such circumstances it was the responsibility of the Board to take a decision, was good enough, however, to admit that if the Corporation had sought the Ministry's advice, they "would definitely have looked into the matter". Considering the fact that large sums of money were at stake, the Committee are firmly of the view that rather than taking a unilateral decision in this regard, the State Trading Corporation ought to have taken the Department of Food and the Commerce Ministry into confidence and proceeded on the basis of sound legal opinions, instead of relying only on a "commercial judgment". That this was not done is regrettable.

2.137. It is also significant in this context that at the meeting of the Board of Directors of the State Trading Corporation held on 24 July 1975, when alternative proposals to resolve the dispute with Cie Noga were considered, three of the five Government Directors on the Board (Additional Secretary, Ministry of Finance, a Joint Secretary of the Commerce Ministry and the Economic Adviser to the Ministry of Industrial Development) had expressed themselves in favour of recourse to arbitration and had also confirmed this in writing to the Chairman of the State Trading Corporation within about a week of the Board's meeting. However, the majority view to accept Cie Noga's offer to lift 0.60 lakh tonnes at the f.o.b. price of $ 525 per tonne appears to have prevailed. In the Committee's opinion, since conflicting views had been expressed on the question, particularly by the Government Directors, it would have been more appropriate if a final decision in this regard had been taken after consultations with the Government departments on whose behalf the deals were being handled.

2.138. As regards the attempt at extenuation that the State Trading Corporation had not incurred any loss on its sugar transactions with Cie Noga if the totality of the transactions was taken into account and that the association had been beneficial, this can only be considered as very special pleading and is by no means convincing. The basis for the claim that a monetary advantage of Rs. 20.35 crores had accrued to the State Trading Corporation from the quantities lifted by Cie Noga during 1974-75 and 1975-76, which in any case has no relevance to the point presently under consideration, have also not been indicated and can at best be considered hypothetical in view of the fact that many of the sales during 1974-75 had been effected below the then prevailing international prices. In any event in so far as the specific deals under examination are concerned, it is fairly obvious that Government, due to the mismanagement of the situation by

the State Trading Corporation, had lost considerable foreign exchange which, according to the Corporations own computation, works out to Rs. 10,17 crores.

2.139. The discussions in the preceding paragraphs add up to a situation which is far from complimentary to the State Trading Corporation. The Committee cannot but take a grave view of the various acts of omission and commission which has resulted in a huge loss to the exchequer. The Committee accordingly recommend that a thorough probe should be conducted into the circumstances in which high-value contracts had been awarded to Cie Noga without an adequate verification of credentials and a number of concessions had been extended to the firm even after it had defaulted twice to the detriment of the country's interests as well as the conduct of the officials responsible for handling the case. The part played in this somewhat dubious episode by the Indian and Foreign agents of Cie Noga (Engee International New Delhi, and Marpro of London) also needs to be gone into. The probe, in the Committee's view, should be entrusted to the Commission of Enquiry, the setting up which has been recommended earlier in paragraph 1.114.

2.140. The Committee have been informed that apart from encashing the bank guarantee for the second default of Cie Noga in not lifting 13,419 tonnes out of the re-negotiated quantity of 60,000 tonnes and stopping all dealings with the firm, the question whether the State Trading Corporation could claim any further damages from Cie Noga for their default had been referred to a Senior Counsel in U.K. for his opinion and that further action in the case would be taken in the light of the Counsel's opinion. Now that considerable time has elapsed since then, the Committee would like to be apprised of the further developments in this regard and the action, if any, taken as a sequel thereto. It should also be examined whether any action is possible against the agents of Cie Noga.

2.141. The Committee have also gained an impression, and this is reinforced by some of their earlier findings on the subject contained in the 160th Report (Fifth Lok Sabha), that the agents of Foreign Companies and trade houses, particularly the Indian counterparts, are normally of no help and whatever service is rendered by them is also of little significance. Besides, the Indian agents often act only as contactmen and appear to be more concerned with safeguarding the interests of their foreign principals often to the detriment of national interests. The Committee have been informed in this connection that there is no special machinery available with the State Trading Corporation to verify the antecedents and credentials of Indian agents of foreign firms. They are, therefore, firmly of the view that in the case of commodity trades, where no question of after-sales service or maintenance is involved, it should be possible to eliminate these middlemen agents and to deal directly with the foreign principals.

2.142. While the Committee note that certain steps in this direction have been taken by the State Trading Corporation and guidelines have been circulated to its divisions and subsidiaries in pursuance of a review conducted in November 1973, they feel that a lot more needs to be done to tackle this problem in a more effective manner. The existing arrangements for the verification of the antecedents of Indian agents, where dealings with such agents are inescapable, also need to be strengthened so as to secure the interests of the country. The Committee, therefore, desire that the role played by agents in the transactions of the State Trading Corporation should again be comprehensively reviewed in the light of the experience

gained so far and all necessary steps taken to minimise, if not altogether eliminate, dealings with agents.

2.143. The Committee learn that information in regard to the Indian agents of foreign firms dealing with the State Trading Corporation and other Government and quasi-Government agencies is regularly exchanged only in respect of agents or firms who have been black-listed by the Chief Controller of Imports & Exports or otherwise placed on the 'caution list' circulated by competent authorities like the CCI&E, the Ministry of Home Affairs, etc. Further, under the law, the power to black-list firms can be exercised only by the Chief Controller of Imports & Exports and the State Trading Corporation is stated to have no system of black-listing of Indian agents. Having due regard to the role that some of these dubious 'agency' firms could play and the links and inter-connections that exist between different firms, the Committee feel that this is not a very satisfactory arrangement. They would, therefore, like Government to review the existing legal provisions in this regard so as to bring about the desired improvements. A suitable system should also be devised to ensure a continuous and effective flow of information in regard to the performance of agents, Indian as well as foreign, between different Government and quasi-Government agencies and public sector Corporations. The Committee would await a detailed report on the action taken in pursuance of these recommendations.

2.144. Yet another aspect which causes concern to the Committee relates to the functioning of the State Trading Corporation. The Committee were surprised to learn that while no enquiries had been initiated into the conduct of any official connected with sugar deals of the State Trading Corporation, as many as thirteen enquiries/investigations into the conduct of different officials of the Corporation, some of them in the higher income brackets, were being processed. This certainly does not speak well of the Organisation. The Committee would urge that apart from analysing in depth the causes for such a state of affairs and taking necessary measures to tighten the existing procedures, only officers of proven integrity should be selected, after the most careful screening, for appointment to executive and managerial positions. Officials found guilty of having abused their positions and indulged in malpractices should be proceeded against sternly and expeditiously. As earlier recommended in paragraph 6.16 of the Committee's 187th Report (Fifth Lok Sabha), a more positive and dynamic procedure has to be evolved in this regard so that punishments are graded according to the magnitude and seriousness of the lapse committed by the officials so that the positive action taken even in two or three cases acts as a deterrent to others.

2.145. The discussions in the foregoing paragraphs also bring into sharp focus the need for evolving a permanent strategy for sugar exports so as to maximise export earnings and reduce costs. Now that the State Trading Corporation has been handling sugar exports on behalf of the Department of Food for well over three years, the Committee are of the view that it would be worthwhile to review in detail the modalities employed by the Corporation for exports of sugar with a view to improving upon them and identifying areas where economies could be effected and overheads reduced. The Committee have also been informed in this connection that certain proposals in regard to the export strategy for sugar submitted by the State Trading Corporation were considered by the Government who had

decided that while on account of the nature of issues involved it would not be desirable to announce decisions on them, the Committee at the working level consisting of the Food and Commerce Secretaries, the Chief Economic Adviser and the Chairman of the State Trading Corporation should keep the situation under review and take appropriate decisions from time to time.

2.146. While the Committee trust that the Working Level Committee would continuously monitor and evaluate the performance of the State Trading Corporation in the sphere of exports and take prompt steps to remove hurdles and bottlenecks that may come in the way of export performance, they are, however, of the opinion that it would be desirable to announce decisions on some of the proposals of the State Trading Corporation such as reserving C/D/E 30 grade sugar for export, amending the Sugar (Packing & Marking) Order, 1970 to permit packing of sugar in 50 kg. poly-lined twill jute bags so as to facilitate handling of and minimise damage to export cargoes and making available institutionalised facilities for priority movement of export cargoes over railways, adequate warehousing capacities and berthing priorities at the ports, so as to avoid any ambiguities and to streamline the existing procedures. They would, therefore, like Government to re-examine these issues in depth and would like to be apprised of the specific steps taken in this behalf.

2.147. The Indian share of world trade in sugar has ranged between 0.45% in 1972-73 to a maximum of 3% in 1974-75 and according to the State Trading Corporation, with advance planning and careful management, this could be raised from 3% to at least 5% or even 7% and steadily kept up at that figure. In the Committee's view, it should also be possible to obtain higher unit value realisations by exporting sugar in a processed form and by improving the quality, colour and size of the crystals. Efforts also need to be directed towards maximising sugar exports to the Petrodollar countries in the Middle East and evolving long-term measures for the export of sugar to these and other non-traditional countries which might offer potential markets for Indian sugar. While some steps like export of sugar cubes, change in packing, confining exports to Colour 30, etc. are stated to have been taken as experimental measures by the State Trading Corporation, the Committee feel that a lot more still needs to be done to give an impetus to exports of Indian sugar. The Committee have also been informed in this connection that the response from the OPEC countries for Indian sugar has been practically nil and that this lack of interest was attributable largely to the preference of the Middle East countries for a better quality sugar for which they have the capacity to pay. While the Committee would like the various experimental measures to be pursued to their logical conclusion, they would also urge Government to undertake a critical and in-depth study of the entire question of sugar exports so that factors affecting our export performance can be identified and remedial measures taken.

NEW DELHI;
December 22, 1977
Pausa 1, 1899 (S).

C. M. STEPHEN,
Chairman,
Public Accounts Committee

APPENDICES

APPENDIX I

(*Vide* paragraph 1.51)

Copies of the Notes exchanged between the Department of Food & the Ministry of Finance on the export proposals/strategy for the year 1973-74.

DEPARTMENT OF FOOD

The note from top of p. 37 in file No. 18-2/73-74/S.C. II placed below, relating to the proposal for release of sugar for the month of April, 1974 may kindly be seen.

2. We have to prepare ourselves for exporting an optimum quantity of about 7 lakh tonnes of sugar this year, as against 4 lakh tonnes which we had planned earlier. Normally, all these years we have been drawing the quantity of sugar required for export only from the levy quota. This year also we may continue to do so, or in the alternative, limit our drawal for export from levy quota to 5 lakh tonnes, which represents roughly 70% of the total exports aimed at, and draw the balance of 2 lakh tonnes from 30% free sale quota available to the industry. In the latter case, the sugar will have to be purchased from the industry for export at a negotiated price, which, at the lowest, can be the tariff value prevalent in the month of purchase of sugar from the industry, or at higher negotiated price. The industry may possibly drive a hard bargain demanding the actual export price for the quantity required to be delivered by them for export from the free sale quota. This is the worst that can happen; otherwise, they may also agree to sell the sugar at an economic price for them which will have to be worked out taking into account the actual cane price paid by them for the entire production in the various zones and also such other charges as have not been taken into account by us in fixing the ex-factory levy prices of sugar. Whatever may be the price which we may have to pay to the industry for taking delivery of sugar from their free sale quota for export, there is no question of Government losing finally on the exports, as the f.o.b. export price will be higher than whatever be the negotiated price payable to the industry for this quantity of sugar. As the aim of the Government in stepping up exports this year is principally to earn more foreign exchange and not necessarily to make profit, I think this position should be acceptable to us.

3. In case it is decided to draw 2 lakh tonnes of sugar from the free sale quota of the industry for exports, we have to provide for 5 lakh tonnes for exports from the levy quota. From the calculations given on p 37/N in the file below under the heading 'Levy Sugar', it will be seen that in that case 16.24 lakh tonnes of levy sugar will be available for release from April, 1974 onwards. In view of the present need for stepping up exports, if we decide to carry on with the 1973-74 production only upto the end of November, 1974, and thereafter rely on fresh production of the next season, with the 16.24 lakh tonnes of levy sugar available, it should be possible for us to continue with the present rate of release of levy sugar at 2 lakh tonnes per month. Over and above this, the provision made for 60,000 tonnes for extra releases during the summer months of May and June and festival season in October and November, 1974, will enable us to give some small

additional releases of levy sugar during those periods. By doing so, we will at least be able to satisfy the public that in our effort to export more, we have not reduced in any way the availability of levy sugar at fixed price for them.

4. On the other hand, if the proposal to draw 2 lakh tonnes of sugar from the free sale quota of the industry is not acceptable, the availability of levy sugar will be reduced to 14.24 lakh tonnes only for utilisation upto the end of November 1974. To this we may perhaps add the 60,000 tonnes, which we have earmarked for additional releases during summer and festival season, making the total ava ilabilityof of levy sugar 14.85 lakh tonnc This would enable us to maintain the monthly release of levy sugar at 1.85 lakh tonnes as against the present level of 2 lakh tonnes per month. It has also to be pointed out particularly that there will be *no* additional releases during summer and festival season. The position will have to be explained suitably by a letter from the Minister (Agriculture) to the Chief Ministers in advance so that they may understand the position in proper perspective and not press for increased allotment in future.

5. As regards the free sale release, the position emerging from either of the two alternatives discussed in the preceeding two paragraphs will be as follows :—

(i) If 2 lakh tonnes of free sale sugar is utilised for export, the availability of free sale sugar for monthly releases within the country will be 7.72 lakh tonnes; spread over 8 months till the end of November, 1974, the monthly release of free sale sugar can be about 1 lakh tonnes as there will always be some lapses every month.

(ii) If no quantity is drawn from the free sale quota for exports, with the present estimated availability of 9.72 lakh tonnes for release from April, 1974 onwards, the release of free sale sugar may possibly be steeped up to 1.20 lakh tonnes a month as against the present rate of 1.05 lakh tonnes a month. This may be desirable, as to some extent it will offset the effect on prices resulting from reduced release of levy sugar at 1.85 lakh tonnes per month against the present rate of 2 lakh tonnes per month.

6. In conclusion, I would prefer that we draw 2 lakh tonnes for export from the free sale quota of the industry at a negotiated price unmindful of the reduction which it will entail in our profits on export of sugar, and maintain the monthly release of levy sugar at 2 lakh tonnes per month till the end of November 1974 giving additional releases to an aggregate quantity of 60,000 tonnes during May and June, and festival months of October-November, and keep the release of free sale sugar at 1 lakh tonnes till the end of November, 1974.

Sd/- S. V. Sampath
5-3-1974.

Secretary

We have been thinking for some time about this matter, the above proposal will mean obtaining 5 lakh tonnes from levy sugar quota and 2 lakh tonnes from the levy free quota the proportion working out at 70 : 30. This

will ensure the maintenance of the leavy sugar allotment at about the current level and cause least resentment.

Concurrence of the Finance Department is requested.

Sd/- G. C. L. Joneja
5-3-74

Financial Adviser

(Shri S. K. Ghose)

Sd/- S. K. Ghose
5-3-74

DS(F)

The proposal has been considered carefully by us keeping in view the weighty arguments adduced by the Department and the substantial budgetary implication which has not been taken into consideration by the Department.

1.1. It may be noted that the Central Exchequer will have to forego a sum of not less than Rs. 22 crores (and probably more) if the proposal is accepted i.e. the difference between the levy price of sugar payable to the sugar mills and the price that will have to be paid to the mills if 2 lakh tonnes have to come out of levy-free sugar. The Department of Food will, no doubt, appreciate that it is very difficult for the Central Government to forego such a large sum of money in the present context of acute budgetary stringency.

2. We feel that if the production during the current crushing season reaches 45 lakh tonnes as was anticipated earlier, if not more, the entire amount to be exported i.e. 7 lakh tonnes should come out of the levy quota so as to maximise the profit of Government and thereby minimise the quantum of deficit financing. All the commitments of the Department in regard to utilisation of levy sugar should, in that event, be met with the 31.5 lakh tonnes of levy sugar to become available this season.

3. But the trend of production, has, of late, not been as was anticipated earlier. This is no doubt causing concern. So if unfortunately total production this season turns out ultimately to be much less than 45 lakh tonnes, the proposal will have to be reconsidered.

3.1. The recently granted additional excise concession may have a favourable impact on production of sugar. The position will become clearer by the end of May when the matter may be reviewed. If the production does not pick up and if it becomes more or less certain by then that total production this season will be much less than 45 lakh tonnes, the proposal may be referred back to us for reconsideration.

Sd/- S. K. Ghose,
JS(F&A)
28-4-74

Food Secretary

Itd. G. C. L. Joneja
29/4

JS(S) Itd. S. V. Sampath
30/4

CD Itd. N. K. Prabhakara Rao
ACD 30/4

Itd. A. L. N. Moorthy
30/4

DEPARTMENT OF FOOD

Shri Pradeep Narang, President, Indian Sugar Mills Association, Shri R. L. Shukla, Chairman of the National Federation of Cooperative Sugar Factories, Shri M. L. Apte, Shri P. S. Rajagopal Naidu, and Shri D. K. Patel, accompanied by some officials of the ISMA and National Federation of Cooperative Sugar Factories saw me at 2.30 P.M. on 26th instant.

2. They mentioned that the Joint Committee of the joint stock and co-operative sectors of industry met in the morning of that day and considered various problems. According to their latest estimate, the production this year would be around 43 lakh tonnes as against the previous estimate of 45 lakh tonnes.

3. I had asked on an earlier occasion as to how they expected the Government to export as much as 8 to 10 lakh tonnes of sugar as they suggested, if as has been the practice hitherto, sugar for exports is to be found entirely from the levy quota. They had promised to consider the matter further and let me know in due course. At the present meeting, they stated that the committee had decided to offer to the Government sugar for export from their free sale quota upto 30% of the total quantity to be exported subject to a ceiling of 2 lakh tonnes, at a fixed price of Rs. 290 per quintal ex-factory. They stated that their average realisation from the disposal of free sale sugar this year was expected to be above Rs. 300 per quintal and the reduction involved in their offer should be judged in this context and also taking into account the higher cane price they have been paying in this season. They made it clear that there was no scope for any further negotiation in this price as they have quoted the rock bottom price.

4. I mentioned to them that the Government would keep this offer in view in case it became necessary to take sugar for exports from their free-sale quota.

For information.

Sd/- S. V. Sampath
28-3-74

Secretary

Sd/- G. C. L. Joneja
28-3-74

M(P)

No doubt the recovery this year is going down, but seeing the magnitude of the sugarcane crop, I am a bit hopeful and the production should be much more than 43 lakh tonnes. Keeping in view the all India figures of price for sugarcane paid last year, hardly there is any extra burden on the sugar mills this year.

Sd/- B. P. Maurya
30/4

M(A)

I should like to discuss this with M(P) and Secretary/JS(F).

Sd/- Fakruddin Ali Ahmed
4/4

M(P) and I discussed this matter with M(A) today, The position has changed considerably since M(P) recorded his minute. It was agreed in principle that we would have to attempt additional exports of sugar from the free sale quota. I informed the Ministers that we are taking up the matter afresh with Finance who had suggested a review towards the end of May. Prices may have to be re-negotiated on the assessment of the present situation.

Sd/- G. C. L. Joneja
22-5-74

JS(S)

On the basis of an estimated production of 45 lakh tonnes of sugar this year it was proposed in the Cabinet note put up on 13th February, 1974 that we may plan to export 4 lakh tonnes of sugar this year, comprising 1 lakh tonnes of raw sugar to U.K. and U.S.A. and 3 lakh tonnes of white sugar to free markets. While approving the proposal for immediate export of 4 lakh tonnes, the Cabinet decided that we should attempt to export this year upto 7 lakh tonnes.

2. While considering the proposals for release of sugar for April, 1974, the position was reviewed and the maximum quantity that could be exported was estimated at 5 lakh tonnes out of the levy quota of 70% of factories. In order to be able to achieve the targets of 7 lakh tonnes for export, proposals were put up for concurrence of Finance (Food) to draw 2 lakh tonnes of sugar out of the free sale quota of 30% of production. These, however, required some readjustment of the monthly quotas of levy and free sugar for internal consumption. Finance (Food), however, indicated that a clearer position of the production prospects this year would be known by the end of May 1974 and if the estimated production is much less than 45 lakh tonnes as expected, the proposal may be referred back to them for reconsideration.

3. While considering the release proposals for May 1974, it was apprehended that the expected production of 45 lakh tonnes may not be reached. It was, however, hoped that a production of 43 lakh tonnes may be achieved and on this basis the releases for internal consumption were phased out to provide for export of 5 lakh tonnes of sugar, 4 lakh tonnes out of levy and one lakh tonnes out of free sale sugar.

4. While considering the release proposals for June 1974, it was found that it would not be possible to achieve a production of more than 41 lakh tonnes and accordingly after providing for export of 4 lakh tonnes out of levy entitlement, the quantum of levy and free sale releases for internal consumption were reduced to 1.90 lakh tonnes of levy and 0.90 lakh tonnes for free sale making a total release for June of 2.80 lakh tonnes as against 3.05 lakh tonnes per month from January to May, 1974. There does not appear to be any possibility at present of expecting a production of more than 41 lakh tonnes in the year 1973-74.

5. In the circumstances it would not be possible to step up exports of sugar to more than 4 lakh tonnes by depending only on the levy portion of the production. It would thus appear essential to utilise 2 lakh tonnes of sugar out of the free sale entitlement of the factories for export, to bring the total exports this year to 6 lakh tonnes in all, although it will still fall short of the target indicated by the Cabinet.

6. We have already reduced the free sale quota in the monthly release by 15,000 tonnes from June 1974 and for the rest of the year we could easily utilise this saving of a lakh tonnes for exports. In view of the present downward trend of the free sale market, the factories are reporting lapsed quantities against releases given to them earlier and against the releases for March and April 1974, the factories have reported a lapsed quantity of nearly 55,000 tonnes. This could also be utilised for export purposes. With a little more adjustment, it would appear possible to syphon off about 2 lakh tonnes of sugar out of the free sale entitlements of the facories for export.

7. We may, if approved, now refer the matter to Finance (Food) for their reconsideration.

Sd/- A. L. N. Moorthy
24-5-1974

JS(S)

Sd/- S. V. Sampath
24-5-1974

Secy.

Sd/- G. C. L. Joneja
24-5-1974

JS(FA)—Shri S. K. Ghose

Please examine with reference to the notes ante and the Cabinet paper (or decision) on sugar exports this year.

Sd/- S. K. Ghose
25-5-74

DS(F)

MINISTRY OF FINANCE

(Food Finance Branch)

We agree that in view of much lower total output, it would not be right to take more than 4 lakh tonnes out of the levy sugar for export.

2. Under the circumstances, the offer of Rs. 290 per quintal from the Industry for 1 lakh tonnes of export out of the free sale quota is reasonable. We would, however, expect the Department of Food to negotiate the price and get as low a price as possible.

3. Permission to export 1 lakh tonnes out of the free sale quota should be given without waiting for the 4 lakh tonne levy quota to be fulfilled, since STC has to make advance arrangements for export.

M.R.E. has seen.

Sd/- B. K. Chaturvedi
DS(F)
1-7-74

Deptt. of Food

(Shri S. V. Sampath, J. S.)

Min. of Fin. (Food Div.) UO No. 245/US(F)/74 dt. 1-7-74.

APPENDIX II

(*Vide* Paragraph 1.56)

Copy of communication dated 28 March 1974, from the Indian Sugar Mills Association and the National Federation of Cooperative Sugar Factories Ltd.

National Federation of Cooperative
Sugar Factories Ltd.
L-8, South Extension Part II,
New Delhi-49.

Indian Sugar Mills Association
A-7, NDSE, Cooperative Colony,
South Extension Part-I,
Ring Road, New Delhi-49
March 28, 1974

Shri S. V. Sampath,
Joint Secretary to Govt. of India,
Ministry of Agriculture,
Department of Food,
Krishi Bhawan,
New Delhi.
Dear Sir,

Kindly permit us to refer to the meeting of the joint delegation of our two Organisations *viz.*, the National Federation of Cooperative Sugar Factories Ltd., and the Indian Sugar Mills Association had with you at your office on Tuesday the 26th March, 1974. A list giving the personnel of the delegation is enclosed.

We take this opportunity to recapitulate hereunder the various important matters discussed at the above meeting.

Production Estimate

We had informed you that the Consultative Committee of our two Organisations had met the same day and had reviewed the latest estimates of sugar production during the current season 1973-74. Having regard to the latest trend of sugar production in the various States, the Consultative Committee were of the view that the total sugar production during the current season 1973-74 may be of the order of about 43 lakh tonnes provided the excise concessions announced by the Government are suitably modified so as to make them adequate and realistic to meet the needs of the situation. As we had explained the sugar recoveries obtaining in the various parts of the

country particularly in the northern region had precipitously declined due to various factors. Already as Government are aware, the condition of the cane crop in the northern region had deteriorated considerably due to an unprecedented attack by pyrilla pest. Absence of winter rains and wide spread effect of frost had resulted in further deterioration in the condition of the cane crop. All these factors had cumulatively resulted in a sharp drop in sugar recoveries particularly in the north Indian States of U.P., Bihar, Punjab, Haryana, etc. Even in Maharashtra, another major sugar producing State, the initial estimate of sugar output did not hold good any longer due to paucity of cane and their total sugar output may be even lower than that achieved in the preceding season 1972-73. In Andhra Pradesh, in fact, some sugar factories could not work during the current season 1973-74 again due to paucity of cane, following acute scarcity of water and lack of irrigation facilities.

Despite such adverse factors, the Consultative Committee were of the view that it should be possible to attain a production of about 43 lakh tonnes in case adequate and realistic excise concessions are announced. For, in certain areas particularly in the north, there is plenty of cane available and if only the factories are enabled to crush such cane even at lower sugar recoveries through appropriate excise incentives, the sugar production can be augmented in these regions. We had, therefore, reiterated to you our earlier request that the scheme for excise rebate should be modified as follows :

(a) The months of March and April should constitute a separate period for the purpose of computation of excise rebate as in the previous year. During this period, excise duty rebate should be allowed at the rate of Rs. 30/- per quintal on such production as is in excess of 80% of the production achieved in the corresponding period during the last season 1972-73.

(b) During the later part of the season, *i.e.*, 1st May to 30th September, when the sugar recoveries are expected to be substantially lower this year, the rate of rebate should be increased to Rs. 50/- per quintal from the present figure of Rs. 30/- per quintal and it should also be allowed on such production as is in excess of 80% of the output achieved in the corresponding period during the preceding season 1972-73.

We had also urged you to kindly ensure that the necessary modifications are announced at the earliest so that the sugar factories are able to formulate their crushing programmes well in time and with confidence.

Sugar Exports

We had also generally discussed with you the question of sugar exports during the year 1974. In this connection, we had offered industry's full co-operation to the Government for procurement of sugar for exports. We had also concurred with your suggestion that if need be, sugar for exports may be procured in the proportion of 70% levy sugar and 30% free sugar. We had submitted that the industry would be willing to offer sugar from out of free sale quotas to the extent of 0.30% of the total sugar exports during the year 1974 to the free world markets (excluding the preferential quota to the U.S. and U.K. markets), subject to a ceiling of 2 lakh tonnes at a fixed negotiated price. Having regard to the steep increase in the cost of

production following payment of much higher cane prices, sharp decline in sugar recoveries and substantial increase in the cost of various stores and other materials, we had offered to deliver free sale sugar required for export at a fixed ex-factory price of Rs. 290/- per quintal for D-29 grade sugar exclusive of excise duty. You very kindly made a note of this as being the irreducible minimum price at which the industry was able to offer free sugar for exports.

Our above offer was, however, subject to the condition that the existing proportion of levy sugar and free sugar is continued at 70:30 and there is no change therein. You very kindly made a note of this also.

U. S. Export Quota

In this context, the question of India demanding a quota of 2 lakh tonnes at the recent U.S. Sugar Act hearing at Washington was also generally discussed. As desired by you, we have advised the Indian Sugar Industry Export Corporation Ltd., to instruct the U.S. Attorneys to seek further directions in this regard from Mr. Asrani, Minister of Commerce, Indian Embassy, Washington, who has been briefed by the Government in this behalf and that they should proceed further in the matter only after obtaining necessary directions from Mr. Asrani.

We earnestly hope that our above submissions are receiving your due consideration.

Thanking you.

Encl :

Yours faithfully,

Sd/-

(R. L. Shukla)

President

National Federation of Cooperative Sugar Factories Ltd.

Yours faithfully,

Sd/-

(PRADEEP NARANG)

President,

Indian Sugar Mills Association.

LIST OF PERSONNEL OF DELEGATION

1. Shri Pradeep Narang,	President, Indian Sugar Mills Association.
2. Shri R. L. Shukla,	President, National Federation ot Cooperative Sugar Factories Ltd.
3. Shri P. S. Rajagopal Naidu,	National Federation of Cooperative Sugar Factories Ltd.
4. Shri D. K. Patel,	-do-
5. Shri M. L. Apte,	Indian Sugar Mills Association.
6. Shri S. S. Raina,	Manager Indian Sugar Industry Export Corporation Ltd.
7. Shri J. S. Mehta,	Secretary-General, Indian Sugar Mills Association.

APPENDIX III

(*Vide* Paragraph 1.59)

Statements showing : (i) the wholesale prices of open market sugar in five important markets, *viz.*, Delhi, Kanpur, Calcutta, Bombay and Madras from October 1973 to September 1974, and (ii) the price range in the Delhi, Kanpur, Calcutta, Bombay and Madras markets during the period March-June, 1974.

STATEMENT—I

WHOLESALE PRICES OF SUGAR IN OPEN MARKET

(Rs./qtl.)

Month as on	Delhi	Kanpur	Calcutta	Bombay	Madras
1	2	3	4	5	6
October, 1973					
8th	365·00	360·00	N.A.	348·00	340·00
15th	380·00	360·00	365·00	348·00	346·00
22nd	372·00	360·00	N.A.	348·00	343·00
31st	374·00	357·00	368·00	348·00	336·00
November, 1973					
7th	N.R.	356·00	370·00	348·00	336·00
15th	382·00	365·00	365·00	348·00	346·00
22nd	390·00	365·00	375·00	348·00	356·00
31st	395·00	375·00	390·00	348·00	358·00
December, 1973					
7th	404·00	380·00	390·00	382·00	360·00
15th	423·00	390·00	420·00	396·00	361·00
22nd	463·00	425·00	N.A.	N.A.	384·00
31st	445·00	432·00	435·00	413·00	384·00
January, 1974					
7th	455·00	432·00	445·00	424·00	391·00
15th	435·00	435·00	422·00	414·00	383·00
22nd	415·00	395·00	392·00	392·00	378·00
31st	410·00	395·00	395·00	404·00	379·00
February, 1974					
7th	410·00	396·00	395·00	395·00	377·00
15th	406·00	394·00	400·00	395·00	377·00
22nd	425·00	395·00	405·00	413·00	388·00
28th	425·00	395·00	N.A.	417·00	388·00
March, 1974					
7th	428·00	N.A.	406·00	407·00	385·00
15th	425·00	393·00	416·00	409·00	385·00
22nd	427·00	392·00	420·00	408·00	375·00
30th	415·00	390·00	415·00	401·00	375·00

1	2	3	4	5	6
April, 1974					
8th	421·00	375·00	N.A.	409·00	378·00
15th	421·00	375·00	N.A.	411·00	378·00
22nd	416·00	390·00	405·00	402·00	372·00
30th	412.00	390.00	N.A.	N.A.	370·00
May, 1974					
8th	423·00	390·00	N.A.	409·00	376·00
14th	425·00	390·00	N.A.	408·00	383·00
22nd	414·00	392·00	420·00	397·00	383·00
31st	410·00	392·00	N.A.	396·00	384·00
June, 1974					
7th	420·00	390·00	420·00	408·00	393·00
15th	420·00	390·00	420·00	413·00	402·00
22nd	422·00	390·00	410·00	423·00	402·00
29th	422·00	393·00	410·00	435·00	404·00
July, 1974					
8th	432·00	400·00	415·00	447·00	409·00
15th	432·00	400·00	N.A.	442·00	406·00
22nd	435·00	410·00	N.A.	445·00	406·00
31st	445·00	420·00	N.A.	451·00	414·00
August, 1974					
7th	448·00	420·00	N.A.	450·00	413·00
14th	468·00	430·00	N.A.	474·00	426·00
22nd	500·00	455·00	460·00	505·00	463·00
31st	565·00	525·00	470·00 (29th)	530·00	526·00
September, 1974					
7th	575·00	515·00	560·00 (6th)	570·00	556·00
16th	600·00 (17th)	555·00	570·00 (17th)	615·00	572·00
23rd	593·00	590·00	600·00	576·00	555·00
30th	575·00	565·00	590·00	556·00 (28th)	538·00

(Source : D & S. Directorate)

N.A. = Not Available.

STATEMENT II

Statement showing the price range prevailing in the five important markets of Delhi, Kanpur, Calcutta, Bombay and Madras during the period March-June, 1974

(Rs. per quintal)

Month (1974)	Delhi	Kanpur	Calcutta	Bombay	Madras
March	415—428	390—393	406—420	401—409	375—385
April	412—421	375—390	—	402—411	370—378
May	410—425	390—392	—	396—409	376—384
June	420—422	390—393	410—420	408—435	393—404

APPENDIX IV

(*Vide* Paragraph 1.63)

I. Record note of discussions held in the room of Shri S. V. Sampath, Joint Secretary (Sugar), at 11.30 a.m. on 15-7-1974 to consider arrangements for exports of sugar out of free sale entitlements of the factories.

Present :—

1. Shri S. V. Sampath, Joint Secretary (Food).
2. Shri S. K. Ghose, Joint Secretary (Finance) (Food).
3. Shri Pradeep Narang, President, Indian Sugar Mills Association.
4. Shri R. L. Shukla, President, National Federation of Cooperative Sugar Factories.
5. Shri Kohle, Chairman, Maharashtra Rajya Sahakari Sakhar Karkhana Sangh.
6. Shri Chichannaswami, Karnataka Cooperative Sugar Factories Federation.
7. Shri J. S. Mehta, Secretary, General, Indian Sugar Mills Association.
8. Shri N. S. Jain, Managing Director, National Federation of Cooperative Sugar Factories.
9. Shri Jain, of Indian Sugar Mills Association.
10. Shri A. L. N. Moorthy, Additional Chief Director, Dte. of Sugar and Vanaspati.

Jt. Secretary (Sugar) referred to the joint offer made by the two organisations representing the sugar industry vide their letter dated the 28th March, 1974, of full cooperation to Government in the procurement of sugar for exports out of the free sale quotas of the factories subject to a ceiling of 2 lakh tonnes and at a fixed ex-factory price of Rs. 290/- per quintal for D-29 grade exclusive of excise duty and stated that the Government of India have since decided to arrange for exports of sugar out of the free sale entitlements of the factories upto 1 lakh tonnes initially and to negotiate and get a price as low as possible. Jt. Secretary (Sugar) invited the views of the members present on the subject.

2. Shri Narang stated that between the end of March when the offer was made and the present, the situation has substantially changed and on

account of various promises given by the State Governments not having been kept up; the levy sugar prices originally fixed in December, 1973 not having been revised yet although the industry paid a very high price for sugarcane and suffered losses on account of lower recovery and higher costs of production, there is no question of considering any reduction in the offer earlier made and it would also not be possible at present to hold on to the offer of Rs. 290/- per quintal made earlier.

3. Shri Shukla stated that since the work of sugar exports is presently being handled by the STC and in view of what Sh. Narang had stated with which he concurs, the procurement work in respect of the exports of sugar out of free sale quotas may be entrusted to the STC who may negotiate with the industry and secure the required quantity for export.

4. Shri Kohle also supported the views expressed by Sh. Narang and Sh. Shukla and stated that in view of the non-revision of levy sugar prices for 1973-74 till now; delay in the announcement of the sugarcane price for 1974-75 and slump in the free sugar market during April-June, 1974, many factories even in the cooperative sector in Maharashtra will be in the red and as such it would not be possible to stick to the offer of Rs. 290/- per qtl. made earlier.

5. Shri Chickannaswami also reiterated the above view and stated that it would be desirable to allow the STC to procure sugar for export from the free market quotas either by inviting tenders or making direct purchases from the factories at negotiated prices.

6. Jt. Secretary (Sugar) explained that the offer which was made earlier by the industry was in respect of the production of 1973-74 and was still open as it was not time-bound. It was also made by the industry keeping in view the factors now cited by the members such as steep increase in the cost of production, sharp decline in sugar recovery and substantial increase in the cost of various stores and other materials, etc., etc., and that it would be very unreasonable for the industry to withdraw it at this stage. He also pointed out that presently the free sugar market has considerably improved and if substantial quantities of free sugar are taken over for exports it is likely to further improve the free sugarmarket and that the apprehensions of factories incurring losses if the earlier offer is not revised upwards, are not justifiable. He, therefore, requested the representatives of the industry to carefully consider the matter and come to a decision within 2 or 3 days so that further action can be taken early to advise the STC to go ahead with further sales of sugar for export.

7. The representatives of the industry stated that as this is an important matter concerning the interests of the individual members, it would not be possible for them to give a decision now without consulting their members further. They stated that they would obtain the views of their members expeditiously and communicate their decision to Joint Secretary (Sugar) in a couple of days.

II. Copy of letter dated 19 July, 1974 received from the Indian Sugar Mills Assocation and the National Federation of Cooperative Sugar Factories Ltd.

COPY

National Federation of Cooperative Sugar Factories Ltd.
L-8, South Extension, Part-II,
New Delhi-49.

Indian Sugar Mills Association,
A-7, NDSE., Coop. Colony
South Extension, Part-I
New Delhi-49.

Dated July 19, 1974

To,

Shri S. V. Sampath,
Joint Secy. to the Govt. of India,
Ministry of Agriculture,
Krishi Bhavan,
New Delhi-110001.

Dear Sir,

SUBJECT : *Export of sugar during* 1974

Kindly recall the discussion you had on the 15th July, 1974, in your office with the representatives of the NFCSF and the ISMA (list attached) regarding procurement of sugar from the free sale quota for export purpose at a fixed negotiated price. In this connection you invited our attention to our letter of 28th March, 1974, wherein the industry offered to deliver free sale sugar required for export at a fixed ex-factory price of Rs. 290/- per quintal sugar exclusive of excise duty and informed that as the Government was now thinking of procuring sugar out of free-quota for export, the matter could be discussed further to finalise the various issues.

2. The representatives of the industry welcomed the decision of the Government of India to export sugar out of free quota and assured the Government of their whole-hearted cooperation in the matter in the overall interest of the country. We, however, made the submission that as the offer of Rs. 290.00 per quintal made in March, 1974 on the basis of the conditions then prevailing and certain expectations, the matter needed further discussions with other members of the Federation and ISMA before renewing the above offer. You kindly appreciated our view point and asked us to convey the industry's view very soon.

3. We have since discussed the matter with other members of our respective committees although it has not been possible to contact all the members within such short time. The general impression gathered is that it will be difficult for both ISMA and NFCSF to persuade all their member factories to deliver free sugar at a fixed price of Rs. 290/- per quintal on account of the following reasons :—

(i) the price of Rs. 290/- was based on the expectations that if the Government had then desired to export sugar from the free quota, the free market price would have remained reasonably steady. But as the Government is aware, the free market was unduly depressed in April, May and June due to larger arrival of khandsari sugar and other factors which decreased the free market realisations considerably;

(ii) The provisional levy prices fixed on estimates have not been revised by the Government though they are fully aware that the actual recovery of sugar in most regions was lower than the estimates and that a revision in prices is due on account of several escalations, although we were assured of an early decision latest by June, 1974;

(iii) Most sugar factories due to lower free market realisation and non-revision of levy prices are running into heavy losses and cannot afford to increase their losses by offering free sugar at Rs. 290/- at this stage;

(iv) In several regions, the factories were made to pay very high cane price and the State Governments had assured that adequate compensation in some form will be given to the factories. The promised compensation has, however, not been given. As such, the cost of production in many regions is very high and a uniform price of Rs. 290/- per quintal will not be acceptable to factories in such regions.

Under the circumstances, we will respectfully suggest to the Government that sugar for export from the free quota should be purchased on tender basis. We believe that by adopting this procedure, the Government will have no difficulty in getting their requirement from the free quota and that even the price may not very much differ from Rs. 290/- because many factories in the low cost regions will be too willing to deliver sugar in the interest of exports.

We hope that our above suggestion will receive your consideration.

Thanking you,

Yours faithfully,
Sd/- J. S. Mehta,
Secretary-General
Indian Sugar Mills Association.

Yours faithfully,
Sd/- N. S. Jain,
Managing Director,
National Federation of
Cooperative Sugar Factories
Limited.

Representatives of the National Federation of Cooperative Sugar Factories Ltd., and Indian Sugar Mills Association, who were present in the discussions held in the office of Shri S. V. Sampth, Joint Secretary (Sugar on 15-7-1974). 1974).

National Federation of Cooperative Sugar Factories Ltd.

1. Shri R. L. Dhukla, President
2. Shri S. G. Kolhe, Director
3. Shri B. Chikkannaswamy, Director
4. Shri N. S. Jain, Managing Director

Indian Sugar Mills Association

1. Shri P. Narang, President
2. Shri J. S. Mehta, Secretary General
3. Shri S. L. Jain, Deputy Secretary

APPENDIX V

(*Vide* Paragraph 1.65)

Record Note of discussions of the 5th August, 1974 between the Department of Food and the representative of the Sugar Industry.

In the meeting held on 24th July, 1974 of the Special Committee on Sugar Exports, it was decided that the Food Deptt., should make one more attempt to get 1 lakh tonnes of free sale sugar for export at an agreed price from the industry.

2. In pursuance of this decision a meeting was held with the representatives of the industry representing both the private and cooperative sectors, today at 11.00 a.m. in the Committee Room No. 200-J under the Chairmanship of JS(S). DFA and ACD were also present. A list of the persons who attended the meeting is at slip 'F'.

3. In his introductory remarks JS(S) reviewed the subject matter of the discussion and taking into consideration the totality of the position as on date, requested the representatives of the industry to deliberate amongst themselves and inform him of the consensus as to the reasonable price at which industry would offer 1 lakh tonnes of sugar out of the free sale quota for export out of the production of the current year and qualities of sugar acceptable for export *viz.*, C/D-30 grade. The representatives of the industry initially voiced their earlier suggestion that the quantity required be procured by inviting tenders. JS(S) reminded the industry of the voluntary scheme which the industry implemented during the period when there was no control on prices of sugar *viz.*, in the 1st half of 1972 and arranged for supply of sugar at an agreed price ex-factory and in the light of this he desired that the industry should give a second thought before suggesting procurement by inviting tenders whether they cannot once again work out some such scheme of making available the requirement of sugar for export from the free sale quotas at a reasonable price.

4. The representatives of the industry wanted time to discuss among themselves, to which JS(S) agreed.

5. In the 2nd session of the meeting which started at 1.00 p.m. the representatives of the industry offered to supply sugar out of free sale quotas at a price of Rs. 325/- per quintal excluding duty for D-30 grade for a quantity not exceeding 1 lakh tonnes. JS(S) tried to see if they were prepared to offer a lower price but they said it would not be possible to lower their offer.

6. It may be recalled that earlier we had taken the consent of the Ministry of Finance to procure sugar at a price of Rs. 290/- per quintal for D-30 offered by the industry or a little lower. This offer having been rescinded by the industry, the Finance (Food) were consulted on the desirability of securing further quantities of sugar for export from the free sale quotas by advising STC to invite tenders for its procurement. JS(FA) had agreed to the same. However, as mentioned above another attempt has been made

to see if the quantity could be procured at a negotiated price which is reasonable. Since the industry has now offered to make available the sugar at Rs. 325/- per quintal, we may consult Ministry of Finance as to whether this offer be accepted or STC be advised to proceed with the procurement arrangement of this quantity by inviting tenders.

Sd/-
(A. L. N. MOORTHY)
5-8-1974.

APPENDIX VI

(*Vide* paragraph 1.68)

Copy of Note dated 27 September 1974 submitted by STC's Executive Director (Sugar) to the Board of Directors of the Corporation

SUB : *Procurement of Sugar from the market*

The Directors stationed at Delhi, at a Special Meeting called on 11.9.74 considered the note on Procurement of Sugar and decided that a tender be floated for procurement of the quantity of sugar required.

2. In pursuance of the above decision a tender was issued on 12.9.74 to 242 sugar mills all over India requesting that offers for C-30 and D-30 grades of sugar be forwarded to us by 23-9-1974, valid for acceptance upto 8-10-1974.

3. As on 23.9.74 only 27 replies had been received as detailed below :

(i) number of factories unable to make any offer due to insufficient stocks or other reasons	19
(ii) number of factories authorising Maharashtra Rajya Sahakhari Kharkhana Sangh to negotiate on thier behalf	5
(iii) number of factories seeking further clarifications etc.	3
Total	27

Included in item (iii) above is a request from the Maharashtra Rajya Sahakhari Kharkhana Sangh Ltd., for extension of time submitting offers upto 30.9.1974.

4. On 24.9.74, further 8 replies were received including 2 firm offers as follows :

(a) 1000 MT of D-30 Grade sugar at Rs. 500/- per quintal for delivery at Madras port only.

(b) Unspecified quantity of C-30, Grade sugar at Rs. 475/- per quintal for delivery at Bombay (the factory was telegraphically requested to indicate the quantity but no reply has so far been received).

5. As was stated at the Special meeting held on 11.9.74, the quantity of sugar made available by the Govt. out of the levy quota would cover our commitments upto about the 1st week of Nov,. 1974. For uncovered commitments of about 1.10 lakh MT the Deptt. of Food have been requested a number of times to release this quantity out of the levy quota; but they have regretted their inability to make available any further quantity whatsoever. The result of the tender, as detailed above, has been disappointing—the only firm offer being for 1000 tonnes.

6. The above position is reported to the Board for giving guidance as to the course of action that might now be adopted to procure the quantity of sugar in question.

Sd/-
(S. S. SHUKLA,)
27.9.74.

APPENDIX VII

(*Vide* paragraph 1.71)

Copy of Note prepared immediately after the meeting with the representatives of the industry and submitted the following day viz. 19 *October*, 1974 *to the STC's Board of Directors.*

SUB. :—*Procurement of Sugar from the Market*

The Board is requested to approve, post-facto, the procurement of 80,000 MT to 1,25,000 MT of white sugar from the market at an ex-factory price of Rs. 340 per quintal (*i.e.* Rs. 3400 per MT) for delivery upto the 3rd week of December, 1974. The total value of this transaction would be Rs. 27.20 crores to Rs. 42.50 crores.

2. The Board at its meeting held on 28-9-74, while noting that the results of the tender had been disappointing, had desired that further action should be taken in close consultation with the Directors stationed at Delhi. Accordingly, a note (Annexure 'A') was circulated to the local directors on 3-10-74 suggesting that under the circumstances the STC may be authorised to negotiate with the Indian Sugar Mills Association (ISMA) and the Federation of Cooperation Sugar Factory (Federation) for procurement of the required quantity upto a ceiling of Rs. 350 per quintal. It was considered by the Directors that in view of the downward trend in prices of sugar in the internal market the de-hoarding drive, the additional release of sugar for the festive season, the incentives given to the mills for higher production etc. the negotiations with the ISMA and the Federation may be finalised at a price between Rs. 325/- and Rs. 340/- per quintal.

3. The representatives of the ISMA and the Federation met us on 18-10-74 when Directors (M) and (B) were also present. It was explained to the representatives of the industry that our uncovered commitments were for 1.20 lakhs tonnes and after providing for some damage/wastage the quantity of sugar required by us was 1.25 lakh tonnes. The representatives of industry stressed the low level of availability and indicated that they could make firm commitment for only 80,000 MT of C-30 and/or D-30 grade of sugar. Further, in the context of the shortage of sugar in the country and instability in the market, their best offer would be Rs. 365.00 per quintal ex-factory.

4. After detailed discussions, the industry very reluctantly agreed to their earlier price of Rs. 340/- per quintal as a gesture to country's sugar export programme. As regards the quantity, though the representatives of the industry were unable to make a firm offer for more than 80,000 MT, they assured us that they would carefully re-check the position with the different sugar factories and would try their best to meet our requirements of 1.25 lakh tonnes. It was further agreed that the industry would be allowed transportation and other expenses upto the port of shipment on the same basis as had been agreed to by the Department of Food. Copies of letters issued to the Presidents of ISMA and the Federation are at annexures 'B' & 'C'.

5. It might be pointed out that the price of Rs. 340/- per quintal now finalised with the industry is for both the grade C-30 and D-30. This is more favourable to us as compared to the industry's offer of 4-9-74 when the price of Rs. 340/- per quintal was for only 'D' grade with a premium for 'C' grade sugar.

Sd./-
S. S. SHUKLA
Executive Director
19-10-1974

APPENDIX VIII

(*Vide* paragraph 1.72)

Copies of Minutes of the meeting held with the industry on 16 *December,* 1974 *and the note submitted to the Board of Directors of the STC.*

I. Pointsmade at the meeting with the Sugar Industry representatives—

5.00 *P.M.—16th December,* 1974.

Present :

1.	Shri P. Maruthai Pillai	President, ISMA
2.	Shri R.L. Shukla	President, NFCSF
3.	Shri S.K. Somaiya	ISMA
4.	Shri J.S. Mehta	ISMA
5.	Shri N.S. Jain	NFCSF
6.	Shri D.K. Patel	NFCSF
7.	Shri Madhav N. Pittie	ISIEC
8.	Shri S.S. Raina	ISIEC
9.	Shri S.S. Shukla, Director	STC
10.	Shri R.K. Balbir, Director	STC
11.	Shri P.K. Pande, CMM	STC
12.	Shri A. Sahai, CMM	STC
13.	Shri D. Ramesh, DMM	STC
14.	Shri N. Mehta, DMM	STC

Shri Maruthai Pillai agreed, on behalf of sugar mills in Tamil Nadu, to supply 5,000 MT of E-30 grade white sugar from free quota for exports to Sri Lanka. Shipments would be effected around 8-1-1975. The price would be Rs. 360/- per quintal, ex-factory. Others terms and conditions would be as for the (above) 80,000 MT being supplied by ISMA and NFCSF. Shri Pillai mentioned that only 4-5 factories would be involved and the movement to port would be completed in 3-4 days.

2. Regarding payment to the sugar units against the sugar supplied by them for exports, STC offered to make 100% payment, provided the sugar units indemnified STC against any losses arising out of weight shortages or quality deficiencies.

3. Regarding terms of delivery, it was pointed out by STC that while the price agreed was ex-factory, it would be physically impossible for either STC or ISIEC to inspect at the factory sites the quality and weight of sugar to be offered by hundreds of mills. Further, the foreign buyers were concerned with quality and weight of sugar to be offered by hundreds of mills, Further, the foreign buyers were concerned with quality and weight at the port and time of shipment. The representatives of the industry agreed to discuss the modalities among themselves at a meeting on 17-12-74 and came up with an agreed formula.

4. The need for accelerating the movement of 80,000 MT of sugar already committed for supply by the industry, was stressed by the STC. Industry pointed out by the de-classification of colour from 30 to 29 had made things impossible. Unless, the quality was maintained at the specifications applicable to the 1973-74 crop, it would not be possible to move any quantity. It was mentioned on behalf of the STC, that the matter had already been taken up with Government and it was hoped that suitable instructions would be issued shortly.

5. In view of the apprehended delay in release of levy sugar on account of non-fixation of levy price for 1974-75 crop, the industry was also informed of further requirements of about 1.25 lakh MT of white sugar, from free quota, for exports during January-February, 1975. The representatives of ISMA and NFCSF promised to come back with specific offers on 26-12-1974.

6. Certain general matters were also discussed. These related to the trends in the international Sugar Market, the need for close liaison between STC and Industry, etc.

II. Note submitted to the Board of Directors of S.T.C.

SUB : *Procurement of* 31,000 *MT White Sugar from Free Quota.*

Board may approve—

—procurement of 31,000 MT of D-30 Grade of white sugar from free-quota at Rs. 360/- per quintal ex-factory, from the cooperative sugar factories in Maharashtra, Karnataka and Gujarat;

—payment of Rs. 15 per quintal to the Maharashtra factories to cover transportation, loading/unloading insurance expenses and transit shortages;

—payment of 50% of the value of sugar when the Release Orders to the Factories are issued by the Department of Food.

2. As the Board is aware, against our requirements of about 1.20 lakh MT of sugar to be procured from the free quota, the industry has committed to supply only 80,000 MT. The movement of even this quantity to the ports has been slow mainly on account of fixation of higher sugar standards for the 1974-75 crop. The Department of Food has since then decided to revise the new standards to the 1973-74 crop level but these instructions are yet to reach the factories. Levy sugar has not moved at all because the levy price has not yet been announced for the 1974-75 crop. It would, therefore, be quite some time before the movement picks up. Another reason for the slow movement of sugar in States like Maharashtra where transportation is mainly by road has been the movement of cane which has reportedly drawn on all available trucks.

3. A quantity of about 40,000 MT has to be procured immediately to cover the requirements of shipping before 31.3.1975 and even for ships expected to reach ports by the first week of January, 1975.

4. It will be recalled that Board had approved procurement of 5,000 MT of E-30 grade sugar from the free quota for export to Sri Lanka at the then retention prices but not exceeding Rs. 360 per quintal. The quantity was bought on 19.12.1974 at Rs. 360 per quintal.

5. At the meeting held with the representatives of sugar industry on 26.12.1974, the cooperative sector indicated its readiness to supply upto one lakh MT of white sugar for shipments before 31.3.1975, at a price of Rs. 400 per quintal ex-factory. Their contention was that STC had paid Rs. 360/- per quintal for E-grade and that they should get a premium for supply the higher C-30/D-30 grades (normal price premium is about Rs. 20 per quintal for each higher grade). They also contended that prices would normally rule higher in the months of May and on, when the industry could get better realisation for their free quota sugar.

6. The industry was asked to agree to supply at least 50,000 MT at Rs. 360 per quintal leaving the price for the balance quantity to be negotiated latter. But the representatives indicated that they would come back with specific counter proposals only after 8—10 days. Keeping in view our immediate requirements, the representatives of sugar industry were again requested to make available at least 33,000 MT. But they were adamant and after a good deal of discussions and persuation on the part of STC, they indicated that they would supply 22,000 MT at Rs. 360 per quintal, provided 80% advance payment was made to them. After further discussions it was agreed that an advance payment of 50% would be made to the factories, at the time when the Department of Food issued the relative Release Orders. It may be noted that 98% payment would normally have been made in about 15 days after the issue of the Release Orders. The 50% advance payment, now agreed to, would relate to a period normally not exceeding 10 days.

The interest for this period works out to Rs. 1.30 per quintal—far less than the increase in the price—by Rs. 20 per quintal—demanded initially by the Industry.

7. It was agreed that the Maharashtra Cooperative would supply about 20,000 MT, the Karnataka Cooperatives 6,000 MT and the Gujarat Cooperatives 5,000 MT.

8. The payment of additional charges to the Maharashtra Sugar Mills for moving the sugar from ex-factory to the ports of shipment was then discussed. The representatives demanded a 100% increase—from Rs. 10/- per quintal in 1973-74 to Rs. 20 per quintal. They pointed out that the cost of trucks, petrol, diesel and labour charges had all gone up steeply during the period. They also pointed out that even the Govt. of Maharashtra had allowed an increase in the transport charges of cane by 85%.

9. The representatives of Gujarat and Karnataka also demanded similar increases in the transportation charges. The representatives of the three States suggested that if STC found it difficult to pay higher transportation charges, STC could have the option of lifting the goods on an ex-factory basis, and arrange for loading, transportation, unloading, etc. on its own.

10. It was felt by STC that the increase demanded by the Maharashtra representatives was very much on the high side. However, the ISIEC, which was consulted, indicated that it would be near impossible for them to undertake directly movement of sugar from numerous and far flung factories, and even if they were able to do it, the cost would be not less than Rs. 20 per quintal.

11. Keeping in view the increase demanded by the factories and the fact that heavy demurrage has to be paid in foreign exchange for delayed loading

due to shortage in supplies as also the difficulty expressed by ISIEC to directly handle the movement of sugar and, in any case, at not less than Rs. 20 per quintal, it is recommended that a payment of Rs. 15/- per quintal —inclusive of all charges such as loading, transportation, insurance, transit shortages, etc. may be agreed to. Similarly, in regard to the transportation charges for the mills in Karnataka and Gujarat, it is recommended that a proportionate increase over the existing rate, as in the case of Maharashtra, may be made. However, if the Board so desires, ISIEC would be advised to take delivery of sugar from factories in all the three States on ex-factory basis.

Sd./-
S. S. SHUKLA
Executive Director,
27.12.1974

APPENDIX IX

(*Vide* paragraph 1.76)

Minutes of the meeting of the Special Committee on Sugar Exports held on 24th July, 1974.

5th Meeting of the Special Committee on Sugar Exports held in the room of Secretary (Food) at 3.00 p.m. on the 24th July, 1974.

The following were present :—

1.	Sh. G. C. L. Joneja, Secretary (Food)	Chairman
2.	Sh. B. K. Sanyal, Secretary (ED), Ministry of External Affairs	Member
3.	Sh. M. Narasimhan , Addl. Secretary, Min. of Finance (Dept. of Economic Affairs)	Member
4.	Sh. R. Tirumalai, Addl. Secretary, Ministry of Commerce ..	Member
5.	Sh. S. V. Sampath, Joint Secretary (Sugar) Department of Food	Member
6.	Sh. B. K. Chaturvedi, Dy. Financial Adviser, Finance (Food) ..	
7.	Sh. V. Parekh, Chairman, State Trading Corporation of India	
8.	Sh. S. S. Shukla, Director, State Trading Corporation of India.	By invitation
9.	Sh. V. K. Pandey, Chief Commercial Manager, State Trading Corporation of India	
10.	Sh. A. L. N. Moorthy, Addl. Chief Director, Directorate of Sugar & Vanaspati.	

2. The progress of sales of sugar for export as reviewed in the note circulated at the meeting along with the letter dated 18.7.1974 of STC, was discussed. This showed that STC had sold about 31,000 tonnes of White sugar over and above the 3.00 lakh tonnes out of levy earmarked for the purpose, including 44,000 tonnes sold by Govt. before STC took over the work. Shri Shukla informed the meeting that since their letter dated 18.7.1974, STC had sold a further 32,000 tonnes of white sugar, which brings the excess sales to 63,000 tonnes. Shri Parekh stated that they made these sales in view of the further 1.00 lakh tonnes out of free sale quotas to be made available for export. Shri Sampat pointed out that the Department of Food had not informed the STC of the additional provision of 1.00 lakh tonnes for export out of free sale quotas, and arrangements for its procurement had not been finalised yet, and in the absence of any such information STC should not have effected excess sale without obtaining the specific concurrence of the Department of Food. The Food Secretary agreed with this and added that while the Food Department would help to fulfil the commitment already made by the STC, he advised the STC not to make further sales without the prior concurrence of the Department of Food. He also advised the STC to try to secure buyers for E-30 grade sugar, as mostly this quality only would be available from factories in the south and it will be easier to ship them from east coast ports of Madras and Vizag, when the west coast ports of Bombay and Goa are not operable during the south-west monsoon, and Kandla cannot be depended upon owing to pressure of incoming vessels with foodgrains and fertilizers. Shri Shukla agreed to explore the posesibilities of such sales.

3. In regard to the procurement of white sugar for export from the free sale quotas, Shri Sampath informed that the earlier offer at Rs. 290/- per quintal, free of duty, made by the industry is no longer available, as the industry has rescinded the same in view of the present situation. It was also mentioned that the industry suggested procurement of the required quantity of free sale sugar by inviting tenders. Shri Parekh, however, suggested that it would be better if the Department of Food negotiated with the industry once again, as that may fetch the stock at an advantageous price as contrasted to inviting tenders. Shri Sampath suggested that STC may negotiate with the industry. The Food Secretary, however, agreed that the Department of Food would once again negotiate with the industry and if the efforts fail, then only STC may consider going in for procurement by inviting tenders.

4. Shri Tirumalai suggested that steps to make available another one lakh tonnes of white sugar should be taken immediately to enable the STC to continue to be in the sugar export market, as otherwise once they become slack it would be difficult to build up the market again. This view was reiterated by Shri Parekh and supported by Shri Narasimhan who suggested that the STC be given minimum and maximum limits of operation for 1974-75 season in view of the very attractive prices available in the international market. The Food Secretary explained the difficult sugar situation now and said that already at the cost of internal consumption one lakh tonnes of sugar against which STC have made advance sales has to be obtained and in the present situation it is not possible to say anything about another one lakh tonnes being made available for export. Even on the present programme, the carry-over position at the end of the year on 30-9-1974 will be so delicate that it is with difficulty the public distribution of sugar can be maintained for October and part of November in the hope of sufficient production becoming available in the early months of next year which commences from 1st October. So far it has not been possible to make any reasonable forecast of sugar production for 1974-75 and it is not possible to make any commitment for further exports at this stage, much less to give the STC any limits of operation for 1974-75. Shri Sanyal agreed with this view. STC were accordingly advised not ot exceed the 4.00 lakh tonnes limit of white sugar export (including the Govt. sale of 44,000 tonnes made earlier) for 1974, and the export in 1975 can be considered some time in February, 1975 at the earliest after production prospects for 1974-75 are reasonably known.

5. The position of sales of sugar on govt. to govt. basis as given in the circulated note was discussed. It was pointed out that attempts to effect these sales to mutual advantage had not fructified, and since the quantity reserved for such sale has already been sold by the STC, these need not be considered any further. It was pointed out that nevertheless Iran had secured so far about 43,500 tonnes of white sugar from India out of sales made. Regarding the request from Burma for supply of sugar, Shri Sanyal said he will arrange to provide for it under the BTPA outside the present limit of 5 lakh tonnes (including 1 lakh tonnes of raw sugar) for export.

6. The difficult position of shipping facilities at Kandla as well as the unsatisfactory movement position to Kandla from factories in U.P. was pointed out. The Food Secretary said he had discussed this with the Member (Traffic), Rly. Board and hoped that the position will improve. He suggested that the Ministry of Commerce and the STC may also take up with the concerned authorities regarding facilities for shipment at Kandla and movement of sugar to Kandla from U.P. factories.

7. The Food Secretary referred to the finalisation of financial, etc., arrangements for handling sugar exports by STC and suggested that Shri Tirumalai should get these matters finalised quickly by both the Financial Advisers of the Ministry of Commerce and Ministry of Agriculture (Department of Food) and let him have a report, as he has to report to the Cabinet Secretary on the matter. It was pointed out that the STC would not be eligible for any service charges on the quantity of 69,000 tonnes of sugar sold by the Department of Food before the work was entrusted to STC.

8. The report on World Sugar Prospects for 1974-75 circulated by STC was noted.

APPENDIX X

(*Vide* paragraph 1.80)

I. [COPY]

D.O. No. JS(S)/T.S./74

Dated the 22-8-1974.

My dear Shukla,

Re : Procurement of 1 lakh tonnes of white sugar for export from free sale entitlement of factories from 1973-74 production.

Kindly refer to para 3 of the minutes of the 5th meeting of the Special Committee on Sugar Exports held on the 24th July, 1974 sent under cover of letter of even number dated the 30th July, 1974, to Chairman, State Trading Corporation.

2. Since the earlier offer of the industry to make available 1 lakh tonnes of white sugar for export from the free sale entitlement of the fatcories at Rs. 290/- per quintal, free of duty, was rescinded by them, the Committee considered the matter and agreed to the suggestion of your Chairman that the Department of Food may make another effort to negotiate with the industry for procurement of the sugar at a negotiated price, failing which the STC should make arrangements for procuring this quanity by inviting tenders.

3. In pursuance of this decision, the Department of Food started negotiations with the representatives of the industry and it has finally been decided in consultation with the Ministry of Finance that the required quantity of 1 lakh tonnes of white sugar for export from the free sale entitlement of the factories out of their production in 1973-74 should be procured by inviting tenders by the STC, I am, therefore, to request you to kindly take necessary action immediately and arrange for procurement and export of this quantity which has already been sold by the STC to foreign buyers.

Yours sincerely,

Sd./- S. V. SAMPATH.

Shri S. S. Shukla.

Executive Director,

State Trading Corporation,

New Delhi.

Copy forwarded to Shri R. Thirumalai, Addl. Secretary Ministry of Commerce for information and necessary action.

Sd./- S. V. SAMPATH.
5.9.74.

II [COPY]

STC

S. S. Shukla,
Executive Director.

THE STATE TRADING CORPORATION OF INDIA, LTD. CHANDRALOK, 36, JANPATH, NEW DELHI-110001.

18*th July*, 1974.

Dear Shri Shah,

The STC was asked by the Government to export 3.55 lakh M/tons of white sugar and 75,000 M/Tons of raw sugar. Prior to STC handling sugar exports, the Department of Food had disposed of 45,000 M/Tons of white sugar and 25,000 M/Tons of raw sugar. The total export programme was, thus, for 4 lakh M/Tons of white sugar and 1 lakh M/Tons of raw sugar.

As against 3.55 lakh M/tons of white sugar, the STC has already contracted for export of 2.86 lakh M/Tons leaving a small balance of 69,000 M/Tons *i.e.* 6 cargose. As for the raw sugar, the entire 75,000 M/Tons has been contracted for. The total sale value works out to Rs. 170 crores.

The Department of Food (Shri Sampath, Joint Secretary in-charge of Sugar) today telephoned to say that the STC has over-contracted in white sugar. It was explained to him that according to the clearance given to STC by the Government, we had still a balance of 69,000 M/Tons of white sugar to be sold. Shri Sampath was, in fact, reminded that the Hon'ble Commerce Minister had met the Hon'ble Food Minister and it had been decided that the STC would be given for export additional quantity of 1 lakh M/Tons of white sugar to be procured from the free market. Apparently, the Department of Food is still awaiting final clearance from the Ministry of Finance on this count.

The Sugar market has been extremely unstable and nervous. The forward quotations for September to December sales have been very low. As our shipping programme was completely committed till August, the sale had to be made for forward deliveries, quotations for which were very week in view of the reports of better sugar crop prospects in Europe and other countries. We had, therefore, to wait for almost three weeks before we could re-enter the market in the wake of Iran and Sudan tenders which gave a little lift to the market. The average realisation made by STC on the sale of white sugar is £ 270 per M/Ton for deliveries spread over a period of four months from September to December, 1974. This price by all counts is attractive as has been demonstrated by the recent global tender floated by us on the advice of Sugar Committee for sale of sugar. The tender bid ranged from £ 245 for October/November shipment to £ 270 for September shipment as against our recent sale prices for the corresponding periods of £ 270 and £ 274 respectively. However, in view of the advice given by the Department of Food, we have again gone out of the market.

I would be grateful if further quantity to be marketed by the STC, over and above 69,000 M/Tons as per earlier indications given to us, is intimated at an early date.

With kindest regards.

Yours sincerely,
Sd/- S. S. Shukla

Shri Y. T. Shah,
Secretary,
Ministry of Commerce,
Udyog Bhavan,
New Delhi.

c.c. to : Shri G. C. L. Joneja, Secretary, Department of Food, New Delhi.

Shri B. K. Sanyal, Secretary (ED), Ministry of External Affairs, New Delhi.

Shri M. Narasimhan, Addl. Secretary, Ministry of Finance, New Delhi.

Shri R. Tirumalai, Addl. Secretary, Ministry of Commerce, New Delhi.

Shri S. V. Sampath, Jt. Secretary, Ministry of Commerce, New Delhi.

Shri Prem Kumar, Joint Secretary, Ministry of Commerce, New Delhi.

Sd/- S. S. SHUKLA.

APPENDIX XI

(*Vide* paragraph 1.81)

Copies of correspondence exchanged between the Lok Sabha Secretariat, the Deptt. of Food and the Ministry of Commerce etc.

I. *Copy of D.O. letter No. 5/17/75-FT(ST) dated the* 10 *August,* 1976 *from the Director, Ministry of Commerce to the Addl. Chief Director, Directorate of Sugar and Vanaspati (Deptt. of Food) Govt. of India, New Delhi endorsed to the Jt. Secretary, Deptt. of Food & the Senior Financial Committee Officer, Lok Sabha Sectt.*

Kindly refer to your letter No. 1-20/75-ES (Vol. III) dated 30 July 1976 regarding points No. 21, 24 (pt) and 29 in the list sent by P.A.C. on Sugar Exports in 1974 and 1975, point No. 21 is not the concern of this Ministry and in this connection, Shri Mishra of STC has already written to Shri S. V. Sampath, point No. 24 concerning STC and point 29 will of course be dealt with by us.

Your attention is also invited to point No. 36 which has been put down for answer by Ministry of Commerce and STC. This refers to a meeting which took place between the Ministry of Commerce and Agriculture. As the meeting was held in the room of the then Agriculture Minister and as no minutes were received in this Ministry, it is felt that Department of Food is more directly concerned with this Question.

It is, therefore, requested that reply to point No. 36 may kindly be sent to Lok Sabha Sectt. by the Deptt. of Food under intimation to this Ministry.

II. *Copy of D.O. No.* 1-20/75EC *dt.* 19 *August,* 1976 *from Addl. Chief Director, Directorate of Sugar & Vanaspati, Deptt. of Food to the Director, Ministry of Commerce, endorsed to Senior Financial Committee Officer, Lok Sabha Sectt.*

Please refer to your d.o. letter No. 5/17/75-FT(ST) dated the 10 August, 1976 regarding point No. 36 of the questionnaire sent by the Lok Sabha Secretariat on Audit para 27 relating to export of sugar in 1974-75.

2. No information is available in the Deptt. of Food as to when and where the reported meeting between the Ministers of Commerce and Agriculture took place and who all attended it. As far as we recollect, in the evidence given before the Committee, it was stated by the Chairman of the S.T.C. that the clearance for the export of one lakh tonnes of sugar from the free sale quota was given to them by the Ministry of Commerce as a result of discussions held between the two Ministers. In the circumstances, reply to point No. 36 may be given by the Ministry of Commerce in consultation with the State Trading Corporation.

III. *Copy of OM No. 2/7/2/PAC/76 dated 24 August, 76 from the Lok Sabha Secretariat to the Ministry of Commerce (Shri S. L. Khurana, Director) Government of India.*

SUBJECT :—*PAC—Consideration of Audit paragraph 27—C & AG's Report for the year 1974-75, Union Government (Civil)—Sugar Exports in 1974 and 1975.*

The undersigned is directed to refer to copy of d.o. letter No. 1-20/75-ES dated the 19 August. 1976, from Shri ALN Moorthy, Additional Chief Director, Directorate of Sugar and Vanaspati, Deptt. of Food, addressed to the Director, Ministry of Commerce, Govt. of India, New Delhi, regarding reply to Point No. 36 of the List of Points arising out of evidence.

2. It is requested that reply to Point No. 36 relating to a meeting which took place between the Ministries of Commerce & Agriculture and other outstanding points may kindly be furnished expeditiously for the information of the Committee.

IV—Copy of D.O. No. 5/17/75-FT(ST) dated the 30th August, 1976, from Shri S. L. Khurana, Director, Ministry of Commerce to Shri A L N Moorthy, Additional Chief Director, Deptt. of Food with copy to Lok Sabha Sabha Secretariat

Please refer to your D.O. letter No. 1-20/75-ES dated 19.8.76 regarding Point No. 36 of the questionnaire sent by the Lok Sabha Secretariat on Audit Para 27 relating to export of Sugar in 1974-75.

2. In this connection, I reproduce below extracts from the note, dated 24.6.74, the then Additional Secretary, Ministry of Commerce (Shri R. Tirumalai) had recorded after discussions held in the 4th meeting of the Special Committee on Sugar Exports in the room of the Food Secretary on 17 June 1974 :—

> "Placed below is the record note of discussions held in Mr. Joneja's room. The following points were also made at the meeting."
>
> 1. I proposed that we should increase the quantity of sugar for export. Mr. Joneja mentioned that at the meeting between the Commerce Minister and the Minister for Agriculture already a decision has been reached to increase the quota for export from 4 lakh tonnes to 5 lakh tonnes and Mr. Joneja also mentioned to my request for an additional quantity over and above the 5 lakh tonnes that about 50,000 tonnes could also be considered."

3. The question of additional allocation of 1 lakh tonnes of sugar was also discussed at the 5th meeting of the Special Committee on Sugar Exports held in the room of Secretary (Food) on the 24 July, 1974. Tht letter dated 22nd Aug., 74 referred to in part (d) of the question was also issued by the Ministry of Agriculture (Deptt. of Food).

4. It is also relevant to mention that during the P.A.C. hearing Shri Sampath had given out that there was a note on their file to the effect that such a meeting had taken place.

5. We on the other hand have no record on our file regarding the meeting etc. In view of these facts I shall be grateful if answer to Part (a), (c) and (d) of the Question is sent by Department of Food.

6. S.T.C. have the following to say in regard to parts (b) and (c) of the Question :—

"(b) No representative of the S.T.C. was present at this meeting.

(c) The decision to release one lakh tonnes free sale sugar for export had been communicated to the STC informally."

V. *Copy of O.M. No. F. 2/7/2/PAC/76 dated the 1st/2nd September, 1976 from the Lok Sabha Secretariat to the Department of Food.*

SUBJECT :—*PAC—Consideration of Audit paragraph 27—C&AG's Report for the year 1974-75, Union Government (Civil)—Sugar Exports in 1974 and 1975.*

The undersigned is directed to refer to copy of D.O. letter No. 5/17/75/FT(ST) dated the 30th August, 1976 from Shri S. L. Khurana, Director, Ministry of Commerce, addressed to Shri A. L. M. Moorthy, Additional Chief Director, Ministry of Agriculture and Irrigation (Department of Food), Government of India, New Delhi regarding reply to Points 36(a) to (d) of the List of Points arising out of evidence on Audit para 27 relating to Sugar Exports in 1974 and 1975.

2. It is requested that complete reply to Point No. 36 relating to the meeting which took place between the representative of the Ministry of Commerce and the Ministry of Agriculture & Irrigation and other outstanding points may kindly be furnished expeditiously for the information of the Committee.

VI. *Copy of D.O. No. 1-20/75/75-ES dated 3rd September, 1976 from Shri A.L.N. Moorthy, Additional Chief Director, Department of Food to Shri S. L. Khurana, Director, Ministry of Commerce, with copy to the Lok Sabha Secretariat*

Please refer to your d.o. letter No. 5/17/75-FT(ST) dated the 30th August, 1976 regarding reply to Point No. 36 of the Public Accounts Committee on Audit para 27 relating to exports of sugar. In reply, we have the following to state :—

(i) As already pointed out in our letter of the 19th August, 1976, no information is available in the Department of Food as to when and where the reported meeting between the Ministers of Commerce and Agriculture took place, who all attended it and what transpired therein.

(ii) The minutes of the 4th meeting of the Special Committee on Sugar Exports held on the 17th June 1974 were issued on the 22nd June 1974 and a copy of it was delivered on the same day to Shri R. Tirumalai, then Additional Secretary in the Ministry of Commerce. A copy of the note dated the 24 June 1974, as recorded by him on the file of the Ministry of Commerce and referred to by you, does not appear to have been communicated to this Department either for being brought on

records of the meetings of the Special Committee or for issuing an addendum to the minutes of that particular meeting. At this stage, after a lapse of 2 years, the Food Secretary, who was the Chairman of the Special Committee, is not in a position to confirm or comment on the contents of the note dated the 24th June 1974 recorded by Shri Tirumalai.

(iii) The next meeting of the Special Committee was held on the 24 July 1974 and was also attended by Shri Tirumalai. Even at this meeting, Shri Tirumalai did not refer to the points covered by his Departmental note of the 24 June 1974 having been left out in the minutes of the previous meeting. Further, as brought out in the minutes of the meeting of the 24 July 1974, when, with reference to the excess sales for export made by the STC, "Shri S. V. Sampath pointed out that the Department of Food have not informed the STC of the additional one lakh tonnes of free-sale sugar for exports and arrangements for its procurement had not been finalised yet and in the absence of any such information, the STC should not have effected the excess sale without obtaining the specific concurrence of the Department of Food". Shri Tirumalai has not gone on record as having observed anything to the contrary.

(iv) The contents of paragraph 4 of your letter under reply are not factually correct. The Record Note of proceedings of the Public Accounts Committee hearing in regard to what Shri Sampath stated before them was received by him for confirmation and, according to Shri Sampath's best recollection, did not contain anything to confirm that he had "given out that there was a note on their file to the effect that such a meeting had taken place."

2. In the circumstances explained above, the Department of Food feel that reply to Point 36 raised by the Public Accounts Committee should be given by the Ministry of Commerce.

VII. *Copy of D.O. letter No. 2/7/2/PAC/76 dated 10th September, 1976 from the Officer on Special Duty (PAC), Lok Sabha Secretariat to Dr. P. C. Alexander, Secretary (FT), Ministry of Commerce, Government of India.*

You may kindly recall that at the sittings of the Public Accounts Committee held on 23 and 24 June 1976 to consider paragraph 27 of the Report of the Comptroller & Auditor General of India for the year 1974-1975, Union Government (Civil) relating to Sugar Exports in 1974 and 1975, the Committee had been informed by the Chairman of the State Trading Corporation that the decision to export a quantity of 1 lakh tonnes out of the free sale quota had been communicated to the State Trading Corporation on 1 July 1974 itself and that this issue had been discussed at a meeting which took place between the Ministers of Commerce and Food & Agriculture. This statement had also been corroborated by you during evidence when you informed the Committee, *inter alia*, that while the request of the Ministry of Commerce for an additional quantity of two lakh tonnes was under consideration of the Ministry of Finance and these negotiations were going on between that Ministry and

the Department of Food, it was clear when the Ministers of Commerce and Agriculture met in June that at least one lakh tonnes would be agreed upon and that the State Trading Corporation was fully in the picture as far as information or knowledge of this discussion was concerned.

2. In point No. 36 of the List of points arising out of the evidence tendered before the Committee, forwarded with our O.M. of even number dated 21 July 1976, we had called for some additional information on this subject from the Ministry of Commerce. Since then, this issue has been under protracted correspondence between the Ministry of Commerce and the Department of Food, as will be seen from the correspondence resting with Secret D.O. letter No. 1-20/75-ES from Shri A. L. N. Moorthy, Additional Chief Director, Directorate of Sugar & Vanaspati, Department of Food, addressed to Shri S. L. Khurana, Director in the Commerce Ministry. As a result, a final reply to the specific points raised by the Committee in this regard is still awaited.

3. I am, therefore, desired by the Chairman, Public Accounts Committee, to request you to look into this matter yourself and arrange to furnish urgently a detailed, self-contained reply to the various issues raised in Point No. 36.

4. It has also been *inter alia*, stated in Shri Khurana's secret d.o. letter No. 5/17-FT(ST) dated 30 August 1976 addressed to Shri Moorthy and copy endorsed to me, in reply to Point No. 36(c), that the decision to release one lakh tonnes free sale sugar for export had been communicated to the State Trading Corporation 'informally'. Since no representative of the State Trading Corporation is reported to have been present at the meeting between the Ministers [Vide reply to Point No. 36(b)], I shall be grateful if you would kindly let us know urgently as to by whom and when this decision had been communicated to the State Trading Corporation.

5. I shall be grateful for a very early reply.

VIII—*Copy of D.O. letter No. 2/7/2/76/PAC dated the 10th September, 1976, from the Officer on Special Duty (PAC), Lok Sabha Secretariat to Shri S. V. Sampath, Joint Secretary (Sugar), Department of Food, Government of India, New Delhi*

Kindly refer to point No. 21(b) of the List of Points arising out of the evidence tendered before the Public Accounts Committee on 23 and 24 June 1976 relating to paragraph 27 of the Report of the Comptroller & Auditor General of India for the year 1974-75, Union Government (Civil), forwarded with our O.M. of even number dated 21 July 1976, wherein the Department of Food had been requested to furnish copies of the Minutes of all the meetings of the Special Committee on Sugar Exports held during 1974.

2. It is seen from the reply furnished in this regard by the Department of Food (Department's O.M. No. 1-20/75-ES dated 2 September 1976 refers) that while copies of the minutes of the meetings held on 13 March 1974, 10 May 1974 and 17 June 1974, have been made available to the Committee, the minutes of the 2nd meeting of the Special Committee held

on 8 April 1974 (wrongly indicated as 8 April 1976 in the Department's reply) have been withheld on the alleged ground that 'it is not in the public interest' to furnish copies thereof.

3. The matter was placed before the Chairman, Public Accounts Committee, who has observed as follows :

> "I am firmly of the view that such glib invocation of 'public interest' should not be permitted practically to thwart the work of the Committee."

I have, therefore, been asked to request you to make available copies of these minutes also, in view of the fact that the meeting held on 8 April 1974 forms a vital link in the chain of events relating to sugar exports during the year and the minutes, therefore, constitute a relevant and vitally important piece of document for the Committee to come to a proper understanding of the various issues, involved and the sequence of various events. I would, therefore, be grateful if you would kindly arrange to furnish urgently copies of the said minutes.

4. I am also desired by the Chairman to request you to furnish copies of the minutes of the subsequent meeting of the Special Committee held on 18 January 1975 which is also relevant to the issues under examination.

5. I shall be grateful for an early reply.

IX—Copy of D.O. letter No. 5/17/75-FT(ST) dated the 20th September, 1976, from Dr. P. C. Alexander, Secretary (FT), Ministry of Commerce, to the Officer on Special Duty, Lok Sabha Secretariat

Kindly refer to your letter No. 2/7/2/PAC/76 dated 10 September regarding replies to the Public Accounts Committee. You would have by now seen the reply to Point No. 36 sent to you on 17 September.

2. The only question that remains to be answered is the one raised in para 4 of your letter. Here again, since there is no definite indication in the file. I have to check with the officers who were dealing with the subject at that time, some of them are now out of the Ministry. I hope to do this in two or three days' time and send a positive reply by the 23 or 24 September.

X. *Copy of D.O. No. 5(17)/15-FT(ST), dated the 4th October, 1976 from Shri P. N. Kapur, Joint Secretary, Ministry of Commerce, to the Officer on Special Duty (PAC), Lok Sabha Secretariat*

Kindly refer to Secretary (FT)'s D.O. letter No. 5/17/75-FT(ST), dated 20th September, 1976, and Khurana's D.O. letter No. F.5/17/75-FT(ST) dated 24th September 1976 regarding reply to the PAC on Point No. 36.

2. The only question that remained to be answered was the one raised in para 4 of your letter No. 2/7/2/PAC/76, dated 10th September, 1976 viz by whom and when the decision to release one lakh tonnes of free sale sugar for export had been communicated to the STC 'informally'.

3. There is no material on record in the files of this Ministry or of the STC to show how the information got conveyed to the STC. Obviously, it was not officially communicated to them by the Ministry. The position has also been checked with the officers then dealing with the subject, both in the Ministry and the STC and they also cannot recall at this stage how the information reached the STC. In the absence of any material on the file, it is not possible to indicate categorically as to when and how exactly this information got communicated.

APPENDIX XII

(*Vide* paragraph 1·88)

A. Statement showing monthwise details of opening (unreleased) balance, production releases for domestic consumption and Exports and closing (unreleased) balance of levy and levy free sugar during the Sugar year 1973-74.

(Lakh tonnes)

Month	Opening (unreleased) balance		Production		Releases made for internal consumption		Releases made for export		Closing (unreleased) Balance	
			70%	30%						
	Levy	Free sale	Levy	Freesale	Levy	Freesale	Levy	Freesale	Levy	Freesale
October	4·69	3·07	0·45	0·21	2·13	1·05	0·67	—	2·34	2·23
November	2·34	2·23	1·79	0·77	1·47	1·23	0·28	—	2·38	1·77
December	2·38	1·77	4·57	1·96	2·62	1·11	0·20	—	4·13	2·62
January	4·13	2·62	5·61	2·40	2·00	1·00	—	—	7·74	4·02
February	7·74	4·02	5·13	2·20	2·27	1·05	—	—	10·60	5·17
March	10·60	5·17	4·70	2·01	2·22	0·87	—	—	13·08	6·31
April	13·08	6·31	2·81	1·20	2·19	0·87	0·74	—	12·96	6·64
May	12·96	6·64	1·40	0·60	2·22	1·00	0·66	—	11·48	6·24
June	11·48	6·24	0·55	0·23	1·94	0·85	0·48	—	9·61	5·62
July	9·61	5·62	0·22	0·09	1·83	0·75	0·54	—	7·46	4·96
August	7·46	4·96	0·21	0·09	1·80	0·80	0·39	—	5·48	4·25
September	5·48	4·25	0·20	0·08	1·82	0·80	1·26	—	2·60	3·53

B. Statement showing monthwise details of opening (unreleased) balance Production, Releases for domestic consumption and Exports and closing (unreleased) balance of levy and levy free sugar during the sugar year 1974-75.

(Lakh tonnes)

Month	Opening (unreleased) balance		Production		Released made for internal consumption		Releases made for export		Closing (unreleased balance	
			65%	35%						
	Levy	Freesale	Levy	Freesale	Levy	Freesale	Levy	Freesale	Levy	Freesale
October ..	2·60	3·53	0·40	0·22	1·83	1·04	0·01	—	1·16	2·71
November ..	1·16	2·71	2·24	1·21	1·35	1·02	—	0·43	2·05	2·47
December ..	2·05	2·07	4·92	2·65	2·12	0·78	—	0·55	4·85	3·79
January ..	4·85	3·79	6·08	3·27	2·08	0·69	0·13	0·88	8·72	5·49
February ..	8·72	5·49	5·77	3·11	2·03	0·66	0·49	0·81	11·97	7·13
March ..	11·97	7·13	5·79	3·11	2·16	0·62	0·70	0·09	14·90	9·53
April ..	14·90	9·53	3·77	2·03	1·84	0·64	0·55	—	16·28	10·92
May ..	16·28	10·92	1·58	0·85	2·04	0·66	0·05	0·62	15·77	10·49
June ..	15·77	10·49	0·34	0·19	2·08	0·89	—	0·47	14·03	9·32
July ..	14·03	9·32	0·10	0·05	2·29	0·88	0·69	0·78	11·15	7·71
August ..	11·15	7·71	0·08	0·04	2·25	0·87	1·93	0·03	7·05	6·85
September ..	7·05	6·85	0·11	0·06	2·27	1·07	0·10	0·49	4·79	5·35

C. *Statement showing monthwise details of opening (unreleased) balance, Production, Releases for domestic consumption and Exports and closing (unreleased) balance of levy and levy free sugar during the sugar year* 1975-76 *(upto July* 1976)

(Lakh tonnes)

Month	Opening (unreleased) balance		Production		Releases made for internal consumption		Releases made for export		Closing (unreleased balance	
			65%	35%						
	Levy	Freesale	Levy	Freesale	Levy	Freesale	Levy	Freesale	Levy	Freesale
October ..	4·79	5·35	0·23	0·13	2·34	1·10	0·01	1·54	2·57	2·83
November ..	2·67	2·83	1·44	0·78	2·08	0·99	0·14	0·03	1·89	2·59
December ..	1·89	2·59	4·98	2·68	2·54	0·87	—	0·13	4·33	4·27
January ..	4·33	4·27	6·29	3·39	2·33	0·69	1·26	0·87	7·03	6·10
February ..	7·03	6·10	6·10	3·28	1·98	0·68	0·36	1·90	10·79	6·80
March ..	10·79	6·80	5·12	2·76	2·07	0·80	0·01	0·27	13·83	8·49
April ..	13·83	8·49	2·55	1·38	2·30	0·67	—	0·70	14·08	8·50
May ..	14·08	8·50	0·62	0·34	2·04	0·78	0·01	0·19	12·65	7·87
June ..	12·65	7·87	0·05	0·02	2·07	0·78	—	0·99	10·63	6·12
July ..	10·63	6·12	0·10	0·05	2·05	0·89	—	—	8·68	5·28

APPENDIX XIII

(*Vide* paragraph 2.66)

I. *Copy of telex message No.* 1 *SPL dated the* 22 *June,* 1976

TIME 1800 HRS

DIRECTOR (M)/KAPIL

WE HAD ASKED SBI TO GIVE A REPORT ON NOGA FLG RECD FROM SBI

QUOTE

THIS WELL MANAGED COMPANY TRANSACTS BUSINESS IN A LARGE SCALE AND THE FINANCIAL SITUATION APPEARS TO BE SOUND THE FIRMS SHUD BE ABLE TO FURNISH WITH GUARANTEES IN CASE OF NEED STP WE ARE NOT IN RELATIONS WITH THIS COMPANY FOR FURTHER INFORMATION PERHAPS ASK THE UNION BANK OF SWITZERLAND AT GENEVA WITHOUT GUARANTEE OR RESPONSIBILITY ON OUR PART UNQUOTE SBI IS ON THE JOB TO GET THE INFO FROM UNION BANK OF SWITZERLAND GENEVA AND HOPE TO GET THE REQUIRED INFO TOMORROW WHEN THE SAME SHALL BE REVERTED TO YOU UNQUOTE

II. *Copy of telex message No.* 15 *dated* 24-6-1976.

DIRECTOR (M)/KAPIL
FURTHER OM OF 22/6 RE REPORT ON NOGA FOR THREE MILLION POUNDS FLG REPORT RECD FROM UNION BANK OF SWITZERLAND THRU SBI LONDON TODAY

QUOTE

SPECIALISED IN INTERNATIONAL TRADE ESPECIALLY IN OLEAGINOUS VERY SATISFYING RELATIONS FOR MANY YEARS VERY IMPORTANT MEANS, IMPORTANT BUSINESS RANGE STP UNTIL TODAY COMMITMENTS ALWAYS RESPECTED STP RELATIONSHIP MAY BE RECOMMENDED CONSIDERED AMOUNTS SEEN TO ENTER IN RANGE OF REALISED BUSINESS AND ARE POSSIBLE AS CREDIT IN GOODS STP COMPANY MAY GIVE GUARANTEES CORRESPONDING TO THEM UNQUOTE

APPENDIX XIV

(*Vide* paragraph 2.73)

I. *Copy of record note dated* 19 *April*, 1974.

Sale of White Sugar

ON 17-4-74, 11,000 MT of sugar was sold to M/s Cargill, New York at £ 266/- per MT and 11,000 MT was sold to M/s Golodetz, New York at average LDP for July 1-15, 74 plus £ 54/- as premium. On 18.4.74, we sold three cargoes to M/s Sucres Denrees at £ 270/- per MT nett FOBS.

2. RM, London telephoned to convey that London office had been able to secure a bid from M/s Noga, Geneva for one cargo at £ Stg. 270/- per MT FOBS for July delivery. The price is nett of commission, (M/s Noga are a new entrant in sugar but otherwise a large business house and are represented in London by M/s Marpro, a well established firm.)

3. RM, London was authorised to make a counter-bid at £ 272/- per MT FOBS nett of commission, for July delivery. (It will be recalled that a price of £ 265/- per MT was considered to be reasonable at the meeting the Chairman & Director(S) had with Secretary (Food), Jt. Secretary (Food) and Jt. Secretary (Sh. BD. Kumar) on 15.4.74.

4. RM, London came back with a counter-bid from the party at £ 272/- per MT FOBS nett for June delivery. We reiterated our office for July delivery, and this was ultimately accepted by M/s Noga.

5. On the basis of the LDP, the equivalent FOB Indian port price for white sugar works out to £ Stg. 260/- for May shipment and £ 236/- for August.

Sd/-
PK. Pande
19-4-1974.

Seen, Thanks. Chairman has been kept in picture alongwith CON members, Govt. Directors have been consulted. The price has been considered good by all concerned. Chairman desired that place of selling should be kept up.

Sd/-

CMM (Sugar). S. S. SHUKLA.

II. *Copy of record note dated 2nd May*, 1974

(SUGAR DIVISION)

2.5.1974

On 27-4-74 we had made an offer to M/s Golodetz at £ 272/- per MT, FOBS, for August shipment—*i.e.* at the same price as the sale made to M/s Noga on 19.4.74.

2. M/s Golodetz, while rejecting the offer, had indicated (on 30.4.74) that Iran had, over the last week-end, bought two cargoes of white crystal sugar at a price equivalent to about £ 255/- per M.T., FOB, Indian ports; they stated further that the price for August shipment should be around £ 240/- FOBS, and that even their earlier bid of £ 268/- per L.T., FOBS, was too high.

3. Dir(S)—who has proceeded to Europe to assess and examine the international sugar market—had in his telex of 30-4-74 from London stated that it was being rumoured in the London market that we had sold to Golodetz at £ 272/- FOB, nett, for August, and further five cargoes to Iran at the same price. He also indicated that he had given a firm offer for one cargo at £ 276/-, nett, FOB, for July or £ 274/- nett, FOB for August.

4. In his cable of 1.5.74 from London, Dir(S) intimated that one cargo has been sold to M/s Noga, Geneva, at £ 273.50 per MT FOBS. The L/C is to be opened by 15.6.74 when discharge port is to be declared. Other terms and conditions are as per earlier sale.

5. The above cable was shown to Chairman. He approved of the sale. Further, as desired by him, the matter was discussed with Shri A. P. V. Krishnan and Shri R. K. Talwar. They have also approved the sale.

Sd/- P. K. PANDE.
2.5.74

Dir(S)-(on return from tour)
Seen, thanks.
Sd/-
S. S. Shukla
12.5.74

APPPENDIX XV

(*Vide* paragraph 2.74)

Copy of the minutes of the meeting of the Sub-Committee of the STC's Board held on 7th March, 1975.

PRESENT

Vinod Parekh—Chairman

A. P .V. Krishnan

S. S. Shukla

Prem Kumar—Could not attend

MINUTES

The Committee reviewed the Sugar operation for the current year. In view of large estimated availability of Sugar in the current year and bearish trend of the sugar market, the Committee felt that greater efforts are required to be made to accelerate the sales of sugar for maximum shipments before the monsoon seasons sets in. For this purpose the Committee felt that every possible method of sale should be explored *viz.*

(i) Indian Ambassadors abroad and Branch Offices should be informed that STC is a willing seller for Cement, Sugar and Rice, for which they should send us all possible enquiries/bids, from territories under their control.

(ii) Tender for two/three cargoes of sugar should be floated to determine the best price and to finalise sales if the prices offered in the Tender are acceptable. This tender should clearly indicate that all new parties, and who are not registered dealers in Sugar would be required to furnish 10% security deposit.

(iii) STC should directly quote against international tenders for supply of sugar at prices cleared by the Sugar Committee.

(iv) Efforts may also be made to sell some lots of Sugar at an agreed premium over the prevailing LDP in consultation with the Sugar Committee to achieve the monthly export target envisaged by the Government.

(v) Director(SS Shukla) should proceed to London to identify and settle terms with one or more established parties, who may be willing to act as brokers on behalf of STC for sales of Sugar.

(vi) For the time being sales should be in Stg.

A weekly statement of the movement of the LDP should be sent to every member of Sugar Committee to keep them informed of the market trends.

Sugar Committee considered the offer of M/s. Golodetz and approved sale of one lot of Sugar to them at £ Stg. 292/- per MT FOBS for April/ May, position on the usual terms and conditions. It was noted that the sale was at a premium of £ .31 over the spot for the month of March, 1975.

Strategy for free market purchase of sugar by the STC.

Keeping in view the improved availability of Sugar it was decided to offer lower prices for free market purchases of Sugar (Present indication at Rs. 330/- per M.T.).

Efforts may also be made to persuade the suppliers to accept that STC's purchase during the current season would be made at the tariff value prevailing from time to time.

APPENDIX XVI

(*Vide* paragraph 2·77)

Statement showing details of all Contracts concluded by the STC, New Delhi with M/s. CIE Noga, Geneva during the period from January, 1972 to December, 1975.

Sl. No.	Date of sale	Quantity (MT)	Shipment period	FOBS price (£ Stg/MT)
A. SUGAR (EXPORT)				
1.	19-4-74	11,000	July, 74	272·00
2.	1-5-74	11,000	Aug., 74	273·50
3.	2-7-74	44,000	11,000 Sep., 74 11,000 Oct., 74 22,000 Nov., 74	267·00
4.	11-7-74	11,000	27th July/ 15th Aug.,74	274·00
5.	16-7-74	22,000	11,000 Nov., 74 11,000 Dec., 74	270·00
6.	22-7-74	11,000	Dec., 74	274·00
7.	7-8-74 (morning)	11,000	Jan., 75	298·25
8.	7-8-74 (evening)	22,000	11,000 Jan., 75 11,000 Feb., 75	300·50
9.	27-8-74	66,000	22,000 Jan., 75 11,000 Feb., 75 33,000 Mar., 75	315·00
10.	18-12-74	11,000	Apr. 75	$1135·00
11.	10-3-75	31,000	15,000 May, 75 16,000 15th May/ 15th June, 75	295·00
12.	17-3-75	33,000	11,000 S.H./Apr., 75 22,000 May,75	311·50

B. BASMATI RICE (EXPORT)				
1. 28-8-74	10,000*	Nov. 74/Jan.75	294·00	
C. RAPESEED OIL (IMPORT)				
1. 29-11-72	10,000		$253·00/MT C&F	
D. TECHNICAL PALM OIL (IMPORT)				
1. 2-8-75	5,000	Aug/Sep. 75	$270·00	Do.
2. 13-8-75	1,500	D.o	$270·00	Do.
3. 5-9-75	4,000	Sept/Oct. 76	$280·00	Do.
4. 13-11-75	3,500**	Nov./Dec. 76	$309·00	Do.

*Quantity lifted was 5,000 MT. For default on balance 5,000 MT an amount of $ 2,50,000/- was realised from M/s. Noga as liquidated damange.

**Cancelled on account of Nogas default. Noga on the other hand has taken the plea that the L/C was not received by them within the contractual shipment period and has submitted the case for arbitration.

APPENDIX XVII

(*Vide* paragraph 2·83)

Statement showing details of various contracts concluded for the sale of Indian Sugar to M/s Cie Noga and the firm's performance in respect of each of the contracts.

S. No.	Date of Sale	Quantity (M/T)	Shipment period	FOBS Price (£/MT)	Shipments		
					Date	Vessel	Qty. (MT)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A. CONTRACTS FULLY IMPLEMENT :							
1.	19-4-74	11,000	Jul., 74.	272·00	31-7-74	I. Xilas	11,540
2.	1-5-74	11,000	Aug., 74.	273·50	21-8-74	Jupiter	10,673
3.	2-7-74	11,000 11,000 22,000	Sep., 74 Oct., 74. Nov., 74.	267·00	6-11-74 11-12-74 17-12-74 26-1-75	Renak A. Skoutaris Georgetta K. Spirit	11,550 10,950 10,451 11,550
4.	11-7-74	11,000	27th Jul/ 15th Aug., 1974.	274·00	14-10-74	Lady Clio	10,870
5.	16-7-74	11,000 11,000	Nov., 74. Dec., 74.	270·00	29-12-74 24-2-75	Golden Season Wan Ho	11,500 11,200
6.	22-7-74	11,000	Dec., 74.	274·00	2-2-75	Cougar	11,550
7.	7-8-74 (Morning)	11,000	Jan., 75.	298·25	8-2-75	I. Sergeyev	11,550
8.	7-8-74 (Evening) ..	11,000 11,000	Jan., 75. Feb., 75),	300·50	21-3-75 15-5-75	Wanaghia Lourion Andriana II	11,550 10,500

9.	27-8-74	22,000	Jan., 75.		18-2-75	Orient Victory	11,548
					11-3-75	Singapore Fortune.	11,550
		11,000	Feb., 75.	315·00	26-3-75	Activity	12,100
					27-3-75	Andriana I	10,500
		33,000	Mar., 75.		9-4-75	Tong Beng	12,100
					19-4-75	Tong Thay	12,050
		209,000					215,282

B. CONTRACTS IN DISPUTE (PARTIALLY IMPLEMENTED) :

10.	18-12-74	11,000	Apr., 75	$1135	Contract not implemented.		
11.	10-3-75	15,000	May, 75.				
		16,000	May/Jun., 1975.	295·00	5-5-75	Laertis	12,100
					Contract. partially implemented.		
12.	17-5-75	11,000	Apr., 75.	311·50	Contract not implemented.		
		22,000	May., 75.				
			(62,900 MT not lifted)				12,100
		75,000					

C. CONTRACT RENEGOTIATED :

13.	24-7-75	60,000	Aug/Nov., 75.	$525	24-8-75	Fizik Vavilov	14,000
					14-9-75	Mukachovo	11,215
					26-9-75	Slavask	10,416
					7-11-75	Calli	10,100
		60,000					45,731

APPENDIX XVIII

(*Vide* paragraph 2.86)

Note indicating the chronological sequence of the steps taken by the STC to ensure performance of the contracts by M/s. Cie Noga and after the firm had defaulted in fulfilling them leading to re-negotiations.

Date of contract	Total Qty. (MT)	Price (FOBS) (MT)	Quantity lifted (MT)	Balance unlifted quantity (MT)
19-12-74	11,000 (April 75)	US $ 1135	—	11,000
10-3-75	31,000 (15,000 MT May 75, 16,000 MT 15 May/ 15 June 75)	£ Stg. 295	12,100	18,900
17-3-75	33,000 (11,000 MT Second half April, 75,22,000 MT May, 75)	£ Stg 311·50	—	33,000
	75,000			62,900

Under STC's standard contract terms, shipment period could be extended on payment of specified carrying charges by 15 days at the buyer's request and futher two weeks at STC's discretion.

2. Contract

dated 19-12-74 Though this contract was for April shipment, the buyers had agreed to lift the cargo in March 1975. The question of establishment of L/C had, therefore, been taken up with the Chairman of Noga, MR. Geon, also when he visited New Delhi on 10-3-75. He had stated that a credit should have reached New Delhi by that time and that it would be opened immediately if not already done.

The sequence of events thereafter is as follows :

1-4-75 (i) Message was sent by Executive Director in charge to Mr. Geon that despite his assurances L/C had not yet been received and must be opened without delay.

(ii) STC London was also told to inform Marpro about non receipt of L/C and ask for its immediate establishment.

3-4-75 (iii) London Office was reminded to press Noga/Marpro for immediate establishment of L/C.

8-4-75 (iv) M/s Emgee International (Emgee) conveyed a message from Noga that they greatly regretted the delay in opening of L/C as they had been put to great inconvenience and loss due to the unethical actions of their competitors who had created serious difficulties for them with their Sudanese buyers. However, as the matter was since well in hand and L/C would be established within a week and the contract would be definitely fulfilled.

(v) STC's handling agents, M/s. Indian Sugar Industry Export Corporation (ISIEC) also remained Emgee for establishment of L/C.

12-4-75	(vi) Noga conveyed a message through Emgee that credit had been established valid upto September 1974 and that the details would be furnished next week.
15-4-75	(vii) Emgee informed that L/C details would be communicated shortly.
29-4-75	(viii) Emgee were reminded that L/C details had not been received and should be telexed at once.
	(ix) Noga informed that they were doing their utmost and again assured that all contracts would be duly implemented.
30-4-75	(x) Emgee intimated that Noga claimed extension of shipment period upto 15-5-75 under the standard contract terms.
14-5-75	(xi) Emgee forwarded a proposal from Noga regarding the extension of shipment periods and revised payment arrangements for all the outstanding contracts, as detailed in para 5 below.
3. Contract dated 10-3-75	For 15,000 MT for May shipment and 16,000 MT for 15th May/ 15th June shipment.
15-4-75	Message from Noga received through Emgee that an L/C for 12,100 MT had been established (This quantity was shipped on 5-5-75 out of 15,000 MT for May 75 shipment.)
14-5-75	Emgee forwarded a proposal from Noga regarding extension of delivery periods and revised payment terms for all the outstanding contracts as detailed in para 5 below.
4. Contract dated 17-3-75	For 11,000 MT for second half April shipment, 22,000 MT for May shipment.
3-4-75	Regarding 11,000 MT to be shipped in second half April, STC London was advised to press Noga/Marpro for immediate establishment of L/C.
8-4-75	STC's handling agents, ISIEC reminded Emgee for establishment of L/C for the second half April cargo.
1-5-75	Noga sent a message through Emgee claiming 15 days extension of the shipment period in accordance with the contract provision.
14-5-75	Emgee forwarded a proposal from Noga regarding extension of delivery period and revised payment terms for all outstanding contracts.
5. SEQUENCE OF EVENTS LEADING TO RENEGOTIATION OF CONTRACTS IN DEFAULT.	The position of total quantity in default under the three contracts has been given in para 1 above.
14-5-75	Noga's proposal regarding outstanding unlifted quantity of 62,900 tonnes was as follows :—
	The remaining quantity of 59150 MT to be lifted (total 75,000 MT, minus 5% tolerance at buyer's option minus 12,100 MT already shipped) was proposed to be shipped in the following manner :
	(a) 20,900 MT (comprising of contract dated 19-12-74 and the second half April lot of contract dated 17-3-75) *to be shipped.*

in 2 lots—one during May 20/June 75 and second during June 15/ July 75 ; the *price* to be the mean average price after converting the price of the contract dated 17-3-75 also in US Dollars at the rate prevailing on proposed dates of shipment. For *payment*, Noga to transfer immediately in favour of STC by the Sudanese 360 days Credits held by Nogas alongwith 9% p.a. interest, though Noga would continue to do their utmost to convert the payment terms to sight payment against documents.

(b) remaining quantity of 38,250 MT to be shipped in 4 lots—one in July, second in August, third during August/September and 4th during Sept./Oct. 1975. Payment of all these cargoes to be made against sight credits.

17-5-75 Emgee forwarded from Noga the following alternative proposal, with regard to the unlifted quantity :

(a) Quantity covered by *contract dated* 19-12-74 to be shipped upto September 75 for which, 360 days Sudanese Credit would be transferred to STC immediately. Noga however undertook to convert this to sight payment before shipment.

(b) regarding *contract dated* 10-3-75 the balance quantity of May lot to be shipped in June and the parcel for May 15/June 15 shipment to be shipped in July and for the total quantity 360 days's Sudanese Credit to be established initially but to be converted to sight payment before shipment.

(c) regarding *contract dated* 17-3-75 the second half April parcel to be shipped during end May/early June 75; and of balance 22,000 MT for May shipment, one cargo to be shipped in June and another during first half July. For all these shipments payment arrangements to be as at (b) above.

30-5-75 Regarding their above 2 proposals, Noga were informed by the STC that :

(a) 360 day's Sudanese Credit was not acceptable.

(b) Sight letters of credit was to be established immediately and ships nominated for lifting in June the two outstanding April cargoes.

(c) The deferment of other shipments could be considered by STC only after Noga's acceptance of the above proposal. It was made clear that Noga's failure to lift the April cargoes immediately against sight credit would constitute a breach of contract and the consequences would solely be their responsibility.

3-6-75 Emgee forwarded Noga's reply to our above proposals. Noga stated that so far they had been unable to find finances other than 360 days Sudanese Credit; though they were continuing their efforts. However, as a gesture of their good faith they were prepared to furnish a 5% performance guarantee which would serve to pay any liquidated damages in case of a default.

Nogas were informed, as decided by the Sugar Committee that :

(i) they must furnish an unconditional, enforceable, irrevocable guarantee for 10% value of the outstanding contracts as partial security. STC's rights remaining intact to claim further damages in case of a default.

(ii) the two April lots must be lifted immediately, and in any case not later than 30-6-75 for which sight credits for 100% value must be established at once.

(iii) Actual carrying costs for the extended delivery periods shall also be payable.

Noga were also asked to specify the extension in shipment periods desired for the remaining cargoes, i.e. besides the above two April cargoes.

16-6-75 Noga replied through Emgee admitting that they had defaulted and that

—STC's claims were legitimate ;

—the sugar in question had been purchased by them against specific sale to Sudan (A). which had run into difficulty on account of machination of other sugar dealers. They had ultimately been able to reach a settlement with the Sudanese buyers at substantial loss, but had failed to find alternative finances apart from the Sudanese Credits.

—They had, therefore, no alternative but to request STC to close these contracts and to let Noga know of the amount STC would claim as a liquidated settlement.

21-6-75 The above proposals from Noga were considered by the SEC Committee and it was decided to request Mr. Gaon to come to New Delhi immediately for discussions.

28-6-75 Noga informed, through STC London, that Mr. Gaon was out of Geneva but that he could visit Delhi on 10-7-75.

29-6-75 Meanwhile as Chairman, STC was visiting London and it was felt that a stage had been reached where Chairman should intervene in this matter. STC London was advised to ask Mr. Gaon to meet the Chairman STC in London on 7-7-75.

2-7-75 Emgee forwarded a fresh proposal from Noga on the following lines :

(i) Noga will lift total outstanding contracted quantities amounting to 59150 MT i.e. after exercising buyers option to take 5% less ;

(ii) Half of the above quantity i.e. 29575 MT to be lifted between August/December, 75 alongwith a fresh quantity of 1,00,000 MT for which Noga gave a firm bid at US $ 300 per MT FOBS. Shipments of these total quantity to be made at a weighted average, price.

(iii) Noga to have option till 1-10-75 for another 1,00,000 MT at US $ 300 per MT FOBS.

(iv) Balance 50% of the outstanding quantity i.e. 29575 MT to be shipped in the following manner : During January, 1976 provided Noga do not exercise option for second lot of 1,00,000 MT.

OR

If Noga exercise option for the second lot 1,00,000 MT, then the entire quantity of 1,29,575 MT to be shipped during January/June, 76 at a weighted average price.

(v) Payment arrangements to be as follows :

(a) 50,000 MT to be shipped during August, 75 for which sight credit would be established with 15 days of finalisation of the above proposals.

(b) Balance quantity against the first phase of the proposal i.e. 79,575 MT to be shipped at the rate of 22,000 MT per month in Sept., October and November and 13575 MT in December

and for all these shipments sight credits to be established 15 days prior to shipment period ;

(c) 29575 MT to be shipped in January, 76 if option for 2nd lot of 1,00,000 MT not exercised by Noga. In case option exercised, then 50,000 MT would be shipped in January 76, 22,000 MT per month during February, March and April 1976 and 13,575 MT during May, 1976. Sight credits for all these shipments to be established 15 days prior to shipment period :

(vi) In case any shipment delayed beyond 29 days allowed under STC's contract, the STC to have the right to store the goods on their account in official port warehouses and encash the letters of credit against wares house receipts ;

(vii) Noga to privide 10% Bank Guarantee as per STC's performance for 1,29,575 MT at the weighted average price, within 15 days of finalisation of these proposals. Thereafter on 1-10-75 Noga to establish a further 10% Bank Guarantee covering the value of 29575 MT/1,29,575 MT (depending on exercise of option for additional 1,00,000 tonnes).

5-7-75 It was reiterated by STC that all matters connected with Nogas default may be discussed at the meeting scheduled for 7-7-75 at London between Chairman and Mr. Gaon. Meeting between the Chairman STC and Mr. Gaon were held on the 8th, 11th and the 12th July, 1975. After a series of discussions the best proposal which Mr. Gaon made on 12-7-75 in settlement of all pending contracts between STC & Noga valid for acceptance by 21-7-75 was as follows :

(i) Noga would lift a quantity of 60,000 MT, plus minus 5% at US $525/- per MT FOBS for shipment during August/November 1975—minimum one cargo to be shipped per month.

(ii) A letter of credit for at least 50,000 MT would be established before 31-7-75 and for the balance quantity one month prior to the last shipment period. The letter of credit would provide for payment against warehouse receipts if vessel(s) did not present or load within specified shipment periods or extension allowed as per STC's contracts. For proper performance of the contract Noga had already established a guarantee for US $4,430,330 with SBI London.

19-7-75 The above proposals were considered by STC's Board of Directors. The Board was of the view that an alternative offer be invited from Noga on the basis of their earlier proposal for purchase of an additional quantity of 1,00,000 MT of sugar, but at a price idea which is close to the current market level.

21-7-75 Noga were informed that the proposals given by them were under STC's consideration and the validity of their offer may be extended upto 31-7-75. Further Mr. Gaon be requested to visit Delhi before 31-7-75 for discussions.

23-7-75 Emgee forwarded the following message from Noga extending their earlier offer of the 12th July for acceptance upto 5 PM on 24-7-75:

"(i) We (Noga) take the outstanding contracts at the original contract price plus an additional 1,00,000 M/T at US $300/-per M/Tand arrive at a weighted average price for the entire quantity of about, 1,60,000 M/T. This quantity to be shipped between

August/December, 1975—March, 1976 to be mutually agreed. Otherterms and conditions as per our proposal of 2-7-1975 given to the STC through Mr. J. S. Gill, Emgee International, New Delhi.

OR

(ii) The STC accepts our proposal given to Mr. Parekh in Geneva for the shipment of the outstanding contracts at $ 525 per M/T FOBS".

24-7-75 The STC Board of Directors considered the above message from Mr. Gaon at a meeting held on 24-7-75 when it was decided to accept Noga's proposal based on his offer of 12-7-74 to lift 60,000 MT at US $ 525 per MT FOBS.

APPENDIX XIX

(*Vide* paragraph 2.88)

Copy of record note of discussions held on 10 *March,* 1975 *by STC with Mr. Gaon, Chairman of Cie Noga, Geneva.*

SUGAR DIVISION

Mr. N. Gaon, Chairman, Noga Cie, Geneva, visited New Delhi on 10th March 1975. He expressed his keen desire to meet the members of the Sugar Committee to inofrm them of the developments in the international sugar market.

2. A meeting of the sugar committee was therefore, held at 12.00 noon on Monday the 10th March '75 in the room of Executive Director(s), when the following were present :

1. Shri APV Krishnan, Addl. Secretary, Ministry of Finance.
2. Shri SS Shukla, Executive Director, STC.
3. Shri ZK Joseph, Executive Director, STC.
4. Shri MN Mishra, Executive Director, STC (joined the discussions for some time)
5. Shri RK Balbir, Executive Director, STC (joined the discussions later).
6. Shri JS Grover, CFM, STC.
7. Shri PK Pande, CMM (Sugar), STC.

1. Mr. N. Gaon, Chariman, M/s. Cie Noga, Geneva
2. Shri JS Gill, Emgee International (local representative of M/s. Cie Noga).

[Chairman & Shri Prem Kumar were out of station on tour and Director (Seth) was on leave].

3. Mr. Gaon is the Chairman of M/s. Noga, Geneva, who have been the single largest Buyer of Indian White Crystal Sugar during 1974-75. The prices paid by them have almost been higher than the prices paid by the other buyers for the corresponding periods of shipment; in fact, the average price paid for by M/s. Cie Noga has been higher than the average prices paid by the other buyers by about £ 20/- per mt.

4. Mr. Gaon pointed out that about 7-8 international sugar houses were represented by only one Agency in India. This agent represented, among others, EDF Man, Woodhouse, Drake and Carey, Sucres and Denree,

Czarnikow, Kuok, Lobo and Cargill, etc. According to Mr. Gaon, even M/s. Golodetz was a part of what he termed as the "sugar cartel". He stated that these companies were aware of the acute need for foreign exchange in the relatively poor sugar exporting countries (like Thailand, India, Brazil, San Diego, etc) and were deliberately pushing the market down by sharing the international market among themselves, by turn, over time and over geographical territories. The recent severely bearish trend in the international market was, according to Mr. Gaon, due to the reports circulated by these firms that the European beet crop would be excellent even though no one could hazard a guess at this stage as to what even the acreage would be like; they had also circulated rumours that India was out to sell 6,00,000 MT. Since Mr. Gaon was a new entrant into the sugar market, the established sugar houses were doing their best to eliminate him out of the market, he said. To this end, they had even mentioned that M/s. Noga had not been able to place their cargoes bought from STC; Mr. Gaon stated that this was a blatant lie and that all his cargoes had been sold.

5. According to him most of the international houses had sold short and wanted to ensure that they covered themselves at very low prices. These houses, according to the information available with Mr. Gaon, were endeavouring to see that the London Market Price came down to as low as £ 100—150 in the future weeks.

6. Mr. Gaon went on to say that he faced stiff and some times unethical competition while bidding for international tenders also.

7. Reasons given by Mr. Gaon for the earlier sharp increases in prices followed by the steep decline were :

(i) the sharp increase in demand from West Asia and Communist countries like Hungry, East Germany and even USSR (a traditional exporter).

(ii) the declaration of force majeure on exports of even committed sugar by Poland. (The supplies against these demands were made by the "Cartel" and they tried to buy some cargoes from M/s. Noga).

8. Mr. Gaon felt that India could bring a bullish sentiment into the international market by selling to consumers directly and not to speculators, this would upset the calculations of the international houses. The country to which cargoes have been sold should also be given due publicity. These international traders found it economical to buy from India for exports to the Persian Gulf and Red Sea ports, Indonesia, etc. They would have to cover their shortages from Indian supplies and India could then expect to get a better deal from them.

9. He stated that M/s. Noga would be very happy to continue to be associated with STC in its efforts to obtain better price *vis-a-vis* the reported existence of monopoly combines. He was willing to immediately buy, for a final consumer, between 80,000 and 1,00,000 MT for delivery in April/May, provided Government of India would accept a negotiable draft issued by the Government of the consumer country. This draft could be discounted with the World Bank or with any Govt. in West Asia for purchase of oil or any other commodity; even M/s. Noga would be willing to discount the draft.

10. It was explained to Mr. Gaon that exports of sugar were very important for India since not only did such exports earn the much needed foreign exchange but also helped in bridging the deficit gap through profits. It was also explained to him that under the long-term contract with one buyer, it was provided that India could get 25% advance payment, free of interest, to be repayable in instalments after 2 years. Under these circumstances exports against a negotiable draft would not be possible.

11. Mr. Gaon then offered to finance the deal himself but the quantity would not be, in the first instance, as high as 1,00,000 MT. He would be interested in 31,000 MT for delivery between 15th May and 15th June 1975. He pointed out that he had to reduce the quantity in view of the large amount involved and the risk he was taking being a relatively new entrant having to compete with established giants in the field. Asked about the price idea, he said that he would be willing to pay £ 1/- more than the recent sale made to M/s. Golodetz at £ 292/- which he was aware of.

12. After further negotiations, he increased the price to £ 294/- but ultimately was agreeable to a price of £ Stg. 295/- per MT FOBS nett, East or West Coast port, for 31,000 MT plus minus 5% for shipping tolerance; the delivery would be in May—15th June in 2 or 3 shipments according to buyers' option.

13. The LDP on 7-3-75 was £ 275/- per MT and the futures were may (270), August (257) and October (242). The sale was approved by the Members of the Sugar Committee present and the COM members attending meeting; it was agreed that acceptance will be sent to M/s. Emgee International immediately on receipt of their formal offer, to be followed by the contract being signed with M/s. Noga (the LDP on 10-3-75 was reported by STC London to be £ 261 per MT, CIF London).

14. Mr. Gaon was confident that once the other big international trading houses came to know that India had sold cargoes directly to consumers, they would buy to cover their requirements, resulting in a bullish sentiment being imparted to the international sugar market.

Sd/- D. RAMESH
11-3-1975

CMM (Sugar) Sd/- P. K. Pande
11-3-1975

Director(s) Sd/- S. S. Shukla
11-3-1975

Addl. Secretary (Shri APV Krishnan) Sd/- A.P.V. Krishnan
11-3-1975

Dir(M) Sd/- MN Misra
12-3-1975

Dir (B) Sd/- RK Balbir
14-3-1975

Dir (J) Sd/- Z. K. Joseph
13-3-1975

APPENDIX XX

(*Vide* Paragraph 2.89)

I. *Extracts from the Minutes of* 238*th Board Meeting held on* 19*th July,* 1975.

Item No. 4

Sugar sales to Cie Noga of Geneva—
Exe. Dir (SS Shukla)'s note dated 17-7-75.

Chairman apprised the Board of the detailed discussions he had with Mr. Gaon of Noga during his recent visit to Europe regarding sugar and rice contracts which were under default.

As a result of these discussions, Noga had made a fresh offer at a price of $ 525 per MT for the unshipped quantity of approximately 60,000 MT of sugar. They were willing to give 10% performance bond or Bank guarantee for this renegotiated quantity and open by the 31st July, 1975 a confirmed irrevocable letter of credit (which could also be cashed against warehouse receipts if the vessels are not nominated or do not load) for a value of at least 50,000 MT out of the total quantity of 60,000 MT.

A detailed discussion ensued and it was decided that an alternative offer be invited from Noga on the basis of their earlier proposal for the purchase of an additional quantity of 1,00,000 MT of sugar but at a price idea which is closer to the current market level.

II. *Copy of Minutes of* 239*th meeting of the Board of Directors held on* 24*th July,* 1975.

(Emergent meeting of local Directors)

Present

Vinod Parekh *Chairman*
A P V Krishnan
Prem Kumar
Bilam Jalan
B D Kumar
A K Sen Gupta
R K Balbir
S S Shukla
Z K Joseph
P Seth
S. Ramachandran sought and was granted leave of absence
M N Misra on tour abroad.
Mrs Surjeet *Secretary*

MINUTES

SUBJECT

SETTLEMENT OF OUTSTANDING SUGAR CONTRACT WITH M/s. NOGA GENEVA—EXE. DIR (SS SHUKLA)'s NOTE DATED 24-7-1974.

1. Pursuant to the last Board decision on the subject, the latest reply from NOGA was considered and it was felt that the three alternatives open to the Corporation to resolve the problems were as follows :

(i) Sale of an additional quantity of 1,00,000 MT at $ 300 per MT FOBS alongwith NOGA's honouring the contractual commitment of 60,000 MT at $ 750 per MT FOBS.

(ii) Lifting by NOGA's of 60,000 MT at $ 525 per MT FOBS against the price average of $ 750 per MT FOBS.

(iii) Going in for arbitration which may ultimately end up in litigation.

2. During the course of discussions in respect of the above alternatives, the following points were made :

(i) As Nogas have defaulted in lifting the 60,000 MT at the contracted prices, it would not be prudent to sell them an additional quantity of 1,00,000 MT.

(ii) Even if additional 1,00,000 MT is sold, the price idea of $ 300 per MT is very much on the low side and the weighted average price for the entire quantity of 1.60 lakh MT amounts to only $ 468.75 per MT. This could not be considered to be a satisfactory settlement.

(iii) The proposed renegotiation of the balance quantity of 60,000 MT at $ 525 per MT FOBS could be deemed to have the advantage of yielding a price higher by $ 125 per MT over the current market price, even though it is substantially lower than initial contracted prices.

(iv) Arbitration generally was an accepted form of settlement of dispute in contracts and had the advantage that it could yield non-controvertial results and provide a fair verdict but this could be time-consuming without any certainty about the final outcome or prospects of actual recovery of claim.

(v) The party had clearly indicated that the alternative basis of renegotiation of contracts was firm and final and if the same is not acceptable to the Corporation, NOGAS would welcome a settlement in arbitration, for which they would take necessary steps to defend themselves.

3. Having regard to all the pros and cons of the various alternatives and discussed in depth and detail, the Board by a majority decided, that NOGA's offer to lift 60,000 MT at $ 525 per MT FOBS may be accepted.

APPENDIX XXI

(*Vide* paragraph 2.97)

Copy of letter dated the 5th November, 1976 from Mr. Sam Marshall of M/s. Marpro Ltd. to the Chairman, PAC.

International brokers—
Oils, Oilseeds
Feedstuffs
Edible Nuts, Grains
General Produce.

Registered Office :
No. 855713
Registered in England
Marshall House 14 St.
Mary's Road Long
Ditton Surbiton Surrey
UK KT 65 EZ
Directors : S. J. Marshall
(Managing) M. J. Marshall
D. Canetti (French)

MEMORANDUM

FACTS ABOUT MARPRO

Marpro traces their origins back to India where Sam Marshall lived, was educated and where their Indian associates were house brokers for over 30 years to Hindustan Lever.

Sam Marshall left India in 1965 for the purpose of setting up an outfit in London to cater to Indian exports/imports and developing relations with other countries all in the field of oils, fats, grains, edible nuts, animal feedstuffs and general produce.

1. By dint of hard work, imagination and good fortune and always appreciating the experience learnt in India, Marpro today is undoubtedly the number one international commodity specialists acting as brokers/agents and having a network of offices/associates in London, Hamburg, Sao Paulo Alegre, Beunos Aires, Tokyo, New York, Kuala Lumpur, Karachi, Teheran, Geneva, Bombay and New Delhi. Each country serves its purpose of market intelligence and statistics and our role in these countries has been calculated from either being the point of 'raw material' supply or 'point of consumptions'. Example :

Brazil.—Source of supply soyabeans, oil, animal feedstuffs and agricultural produce.

India.—Source of raw material supply, technical oils, animal feedstuffs and point of consumption edible oils.

Kuala Lumpur.—Source of palm oil supply/meal consumption.

Iran.—Point of consumption edible oils.

Japan.—Most important region of consumption of all agricultural produce.

Consequently our role as international brokers capable of market insight, spot information, market trends, on a global scale has been well recognised, not only by large trading houses, but also by Government who have reposed confidence and trust in us—which has never been betrayed. This is particularly in oils and fats where we play a major role handling over 800,000 tons of oils annually.

Other figures

approx. 3.5 millions tons Soyabeans/grains
250,000 tons Edible Nuts
70,000 tons Linoil
75,000 tons Castoroil
600,000 tons Animal feedstuffs
Sundry produce overall 1.2 billion Dollars business

2. Marpro has its own network of communication, direct telex channels, etc., and provides efficiently around the clock market information and offers, bids for various commodities to their customers spread over the globe-24 hour minute by minute service and respected by customers world wide.

3. Its business is spread in various international markets. In 1974-75 the sale internationally percentage wise :

Iran 29%

Brazil 15%

Pakistan 10%

India 10%

Other international markets 36%

Proportion of business with India is therefore small *vis-a-vis* global turnover.

Enclosed are some of the telex market surveys which we provide to our customers on a daily basis.

Relations with the State Trading Corporation—Indian and overseas.

(A) We have been associated with the STC, originally through our Indian associates, as far back as 1960 when Sam Marshall was personally involved in trying to service the interest of STC from Bombay. This has continued even more effectively since I have moved abroad. We have always enjoyed a mutual respect and have never shirked from our duty or to give impartial guidance and information.

(B) What should be emphasized is that it is difficult and well nigh impossible for any Government organ or even any International Trading Organisation to be in touch directly with all the buyers and all the sellers. Furthermore the information obtained by such direct contact is always subjective and commodity houses cannot help but 'talk their book'. Agents/brokers do,

however, provide an impartial service showing market trends and tendencies and acting very much in the interests of Governments. Example : the recommendations we gave, which STC acknowledged, in buying 25,000 tons soya-oil during April/May 1976 through Marpro, at levels between US $ 370 and US $ 410 C and F which is approximately $ 100 per ton below the prices paid on STC's buying spree which started in July, 1976. Regrettably Marpro was excluded from any of these enquiries and we are sure that strictly on our past performance and 'track record' with STC we would have been able to participate with competitive, combative offers which we were denied the right whilst other Indian brokers (without our international background) have sold merrily.

(C) It is important to note that STC do not pay any commissions to Marpro whatsoever for the service and regular market information they receive which has helped STC in the past to monitor the markets and effect sales or purchases efficiently. STC has never bought or sold through Marpro unless we provided the cheapest seller and best buyer respectively.

(D) We enjoy the confidence of suppliers and buyers accordingly who prefer to make use of our services in India not only to sense the trend and market intelligence but to follow-up on the execution of contracts-credits, etc. It is this guidance of trends which is extremely important and any broker can be a seller or a buyer within 3 or 4 Dollars per ton from the next broker, whereas trends and tendencies are more important for a movement which can be $ 30 to $ 50 per ton.

(E) Marpro are not simply 'bazaar brokers' and we appreciate that although STC would like to remain in contact with buyers and sellers direct and have contacted our customers, these customers have kept us fully informed since they believe we perform a necessary function otherwise we would not be in existence.

It is important to note that when STC commenced sales of sugar in 1974 Marpro were helpful in breaking the 'sugar cartel' and have studiously secured for STC better prices than other buyers as long as Marpro were in the picture. Moreover we would like to draw attention that for the period during which Marpro were allowed by STC and by Noga to act as intermediary between both parties, upto end of Feb. 1975, the performance was very satisfactory. However, when we were bypassed in March 1975 with Noga and STC working direct through our former co-broker, namely Emgee International, New Delhi, the whole scene changed and Marpro had no control or influence whatsoever on the consequential results. We did advise STC and we did advise Noga concerning the utility of Sudanese Credits but we were left out of the picture.

We felt it necessary to put down on paper what are facts and figures pertaining to Marpro. Surely, it could not be to STC's advantage to deny themselves the kind of information and service that emanates from this organisation which on record far exceeds the coverage that can be obtained elsewhere. What I am sure STC do realise is that there is a role for an international house to provide a constant check on prices, trends and trades which we can fulfil.

May we suggest that you differentiate and discriminate between broker and broker and determine the value of service obtained from various such quarters.

We would like to adjust one more thing, that India is the Mother country of our Managing Director and therefore has a great sentimental significance to work to the best of our ability in India's interests. What more can we say. We only hope that this report is treated with the seriousness in which it has been prepared.

SJM
15 September, 1976
Mr. Vinod Parekh
Chairman,
The State Trading Corporation of India.
Chandralok
36 Janpath
New Delhi.

Dear Sir,

In continuation of our telex of 10th July and 16th July 1976 and further personal discussions with you on 6th September 1976 at STC&S Office, I wish to reiterate the following facts :

1. We have been providing STC Marketing Services for over a decade in both export and import commodities. Our record of performance speaks for itself as we work only on merit and STC concludes business through us only when we are highest or lowest in price for exports and imports respectively.

   I was both shocked and astonished to learn during my visit to Delhi that one of the objections raised was that Marpro was doing too much business with STC.

   (A) It is your intention to muzzle us and does it mean that you will not buy from a Company simply because they are the cheapest ?

   (B) We are no doubt aggressive and we do our best which merits the business. We ask no favours and seek no favours.

   (C) On imports of Oil for 1976 our share was hardly 25% therefore once again we do not understand what is being suggested.

2. We have a net work of offices in Brazil, Japan, Hamburg, London, Kualalumpur, Geneva and work through associates New York, Bombay, New Delhi, Teheran, Sydney etc. Consequently people come to us today because they know they can trust us our information and advice.

3. We are surprised to find that out of all the outfits serving STC's interests we are singled out very clearly and have been excluded from STC oil buying over the past 2½ months of close of 100,000 tons. Surely when you know our past performance and past record and further more the fact that during the months of April and May we were the people to recommend purchasing oil which, against severe competition, we bought for STC 25,000 tons oil from $ 370, 372½ and $ 410 cost and freight. Somewhere there is a contradiction of values. Furthermore it appears that you compare us with ordinary brokers and we have been called 'Buyer's Brokers' where Government bodies have been in the market to purchase. We don't under-

stand how you have two sets of values where, in our case, we are excluded where—in the case of other brokers—without mentioning names they carry on merrily doing business in one manner or another.

4. For your guidance, only a few weeks ago on our recommendations a certain Government purchasing organisation went into the market and have bought sufficient oil at prices $ 50 per ton below current levels.

5. We are aware that certain questions have been posed concerning Marpro and their activities and we believe that this enquiry would have been answered satisfactorily. We are quite prepared to answer any questions before any Board of enquiry on our past record.

6. Should there be any enquiry concerning our involvement with Messrs Noga, once again we are ready to stand up and answer questions. It is true that we introduced Noga in the years 1971—74 during which time their performance was very satisfactory and their purchasing enabled STC to obtain better prices generally and earn more foreign exchange. We would like to point out here that from March 1975 when Noga proceeded to buy sugar direct from STC through the services of our former co-broker Emgee International this was when problems started and were left completely out of the picture. We expressed our apprehensions in the matter to the STC but to little avail as it was no longer in our hands or influence.

7. We would therefore request you to take up once again with your Board the reinstatement of Marpro as one of your major competitive sources of supply of oils, fats etc. enabling us to perform our function.

Yours faithfully,
MARPRO LIMITED

Sd/-
S. J. Marshall
Managing Director.

APPENDIX XXII

(*Vide* paragraph 2.103)

Copy of Note submitted by STC to the Ministry of Commerce containing proposals on the export strategy for Sugar

NOTE ON SUGAR EXPORTS

1. *Introduction* :

India is the fourth largest producer of sugar in the world; USSR, Brazil and Cuba being the other major producers. USSR's production, the largest, ranged between 82 lakh tonnes in 1971-72 to 97 lakh tonnes in 1973-74, as against the Indian production of 31 lakh tonnes and 39 tonnes respectively in the corresponding years. In 1974-75, however, Indian production reached a peak figure of 48.5 lakh tonnes, with the likelihood of a similar crop again during 1975-76. Hence the need for a close scrutiny of the overall position with a view to formulating a sharply defined policy so as to ensure a continuing and optimum realisation of foreign exchange out of sugar exports.

2. *Exports* :

The total world exports during the last few years have ranged between 207 lakh tonnes in calendar year 1971 and 221 lakh tonnes in calendar year 1973 : Indian exports amounted to one lakh tonnes in 1972-73 and 6.9 lakh tonnes in 1974-75.

Figures of Indian production and exports during the last five years are as follows :

Year	Indian		Percentage of World	
	Production	Exports	Production	Exports
			(In lakh tonnes)	
1970-71	37·4	3·9	5·14	1·84
1971-72	31·1	1·4	4·25	0·52
1972-73	38·7	0·9	5·01	0·45
1973-74	39·5	5·5	4·88	2·49
1974-75	48·5	6·9	6·10	3·00 (Approx)

It would be observed that :

(i) the Indian share of world trade in sugar has ranged between 0.45% in 1972-73 to a maximum of 3% in 1974-75; but

(ii) with advance planning and careful management, the Indian share of world market can be raised from 3% to atleast 5% or even 7% and steadily kept up at that figure.

It is, therefore, necessary to consider the measures required for improving our performance for the forthcoming sugar crop and in subsequent years.

3. *Performance during* 1974-75 :

We had an all-time record export of 6.94 lakh tonnes both quantitatively and otherwise yielding an excellent foreign exchange earning of Rs. 340 crores : international commodity boom, a good crop and a series of measures adopted by the STC and other authorities, contributed in obtaining this highly satisfactory result.

The international market has since changed substantially : The London Daily Price (LDP) dropped from £ 650 in November 1974 to £ 128 in June 1975, currently being around £. 168. Nevertheless, we have programmed to sell 13 lakh tonnes in 1975-76, with a possible earning of foreign exchange exceeding Rs. 475 crores, and a profit of approximately Rs. 174 crores.

The highlights of STC's performance during 1974-75 and to-date are given below :

(Quantity in lakh tonnes)

	1974-75	1975-76		
		Already concluded	To be concluded	Total
Sales : ..	6·2	8·4	0·6	13·0
Shipments effected :		Upto 30-9-1975	Upto 31-10-1975	Programmed upto 31-3-76
	6·2	4·8	6·3	13·0
Average Price realised p.m.t.	Rs. 5,038	*Rs. 3,359	Total estimated profit for 1975-76	
Profit on sales :	Rs. 158 cr.	*Rs. 87·4 cr.	Rs. 174 cr.	
			Total Actual Remittance	
Amount remitted to Government :	Rs. 126·10 cr.	*Rs. 87 cr.	Rs. 213·10	

(*On sales to date)

4. *Defects in the Present System* :

(a) *Method of Allocation* :

Presently, state-wise quotas are allocated by the Ministry of Agriculture approximately in equal proportion from levy and free sale sugar. This has to be lifted from about 250 factories spread all over the country. Such a system inevitably implies :

(i) that there would be a lack of uniformity, indeed considerable divergence, in quality of sugar manufactured by such a large number of factories;

(ii) there would be obvious difficulties in enforcing a satisfactory system of quality control; and

(iii) transporting of sugar to the ports from 250 different points in the country makes movement complicated involving avoidable delays and operational strains.

There are six categories of crystal sugar which are being exported at present, i.e. C/D/E 30 and C/D/E 29—'E' is the boldest crystal and 'E' the finest; 29 grade is less white and 30 is whiter.

Since the buyer has to purchase Indian sugar on the above basis with wide variations in colour and quality, the marketing effort does not yield optimum foreign exchange realisation : The foreign buyer being uncertain of the quality of the material he is actually likely to be delivered, often bases his price, particularly in a falling market, on the lowest grade of sugar, though he may actually get a mixture of the best available grades.

(b) *Packing* :

The "Sugar (Packing and Marking) Order, 1970" requires factories to pack sugar in 100 kg. new A-twill jute bags. The international market, however, requires 50 kg. poly-lined jute bags. The out-of-date provision of the "Packing and Marking" Order requires to be changed. This would not only meet the foreign buyers requirements, but would also facilitate handling and minimise damage by hook-holes and consequential loss by spillage etc.

A solution to the above problems of quality and packing would lie in drawing export requirements from selected mills to be nominated by the STC, with due regard to the quality of their production, state of their machinery and technical know-how, size and their location near the ports of shipment etc. This would ensure consistency in quality and high standard of production in line with export requirements. Further, only the best sugar—of 30 colour—should be marked for export and the 29 colour sugar retained for home consumption.

Ultimate goal should be to establish only one standard grade of Indian white sugar to be recognised throughout the world. A suitable price formula can be worked out with the export mills which would take into account the levy and free sugar ratios etc. Earmarking 30 colour sugar for exports needs to be done immediately.

(c) *Advance Programming of Production for Export & Sales* :

In view of the substantial contribution that sugar exports can make to our foreign exchange earnings, it is imperative that adequate measures are undertaken to :

(i) determine well ahead of time the quantum of exports to be undertaken during a year so that forward contracting and timely selling is organised to realise the best possible prices. For example, it should be possible within a month to decide on the minimum volume of sugar which would be made available for export out of 1975-76 season sugar crop. Any further releases being decided upon once the actual size of the crop is known.

(ii) organise production by selected mills of the right kind of sugar to optimise foreign exchange realisation and meet the specific requirements of various markets. It may be noted that :

—demand for Indian white sugar is limited to certain markets, like Indonesia and West Asian/African countries;

—the advanced countries like USA and European countries are accustomed to consuming refined sugar of a quality which is not produced in India; and

—raw sugar is acceptable readily; this sugar, however, is usually not being manufactured by our factories; this is largely because of some factors like the uncertainty regarding programme for exports, lack of internal demand for raw sugar; and the uncertainty of price differentials obtaining in foreign markets from time to time between raw and white sugar.

Having regard to the foregoing points and the large quantum of annual exports envisaged, it is necessary for the STC to have operational flexibility to organise manufacturing of sugar of the requisite type and quality from selected mills so as to optimise foreign exchange realisations from sugar exports.

(iii) In order to achieve the target, it is necessary to conclude forward sales.

Forward contracting could be done on a fixed price basis or a price fixation formula linked with the ruling averages either in the London or New York Terminal Market.

Only forward contracting done well ahead in time would ensure that shipments move regularly month by month and by and large help to secure the benefit of ruling market prices. In any forward sale on price fixation basis, there is, of course, the possibility of making a rupee loss depending upon market conditions at the time. However, part of the crop would be sold on a fixation basis and the remainder at fixed prices. Also, wherever possible minimum price clauses would be stipulated in fixation contracts; thus, the over-all results for the year would be in line with the prevailing international market levels, removing elements of uncertainty or speculation.

(iv) Forward sales, as envisaged above, would underline the necessity of allocations and releases being made well in advance to ensure that neither the sales nor shipments are delayed and no opportunity is lost for making optimum use of the available infrastructure capacity for movement, handling and shipment from various ports.

(d) *Infrastructural Facilites* :

These facilities have to be institutionalised on a continuing basis instead of being provided from time to time on individual basis. The facilities in question are :

—appropriate priority on railway movement : at present sugar is moved under priority 'C' but it does not ensure a regular supply of cargo from the factories to the ports (of course, the problem

of movement itself will be simplified through limitation of mills producing for export);

—adequate warehousing facilities at the ports : the minimum requirements at different ports are :

(In metric tonnes)

Port	Minimum Requirements	Capacity available for sugar
Kandla	25,000	Variable, depending on space vacant in the port wareshouses.
Calcutta	15,000	(Being arranged)
Goa	20,000	9,000
Bombay	30,000	18,000
Madras	20,000	10,000
Paradip	10,000	(Being arranged)
Vishakhapatnam	20,000	14,000

—berthing priorities : though in recent weeks, the sugar vessels have been berthed expeditiously, it is considered that for a satisfactory execution of a heavy export programme at least two berths should be set apart for sugar at Bombay and one berth each at the other ports—Kandla, Marmugao, Madras, Vishakhapatnam, Paradip and Calcutta.

Hitherto, the average monthly shipments have been less than a lakh tonnes, though during August, 1975, over 1.5 lakh tonnes were shipped. We would need to improve even on this performance if the target has to be achieved (providing for below average performance in the monsoon months). For this, the infrastructural facilities have to be augmented as suggested above.

5. *Future Sugar Marketing Policy* :

(a) *Buffer Stock* :

In order that a *minimum* of, say 5 to 6 lakh tonnes are exported regularly each year even in a year of poor crop, to ensure our continued presence in world markets, it may be necessary to build an adequate buffer stock. Once this policy is agreed upon, STC would be willing to undertake this responsibility jointly with the industry and may hold in stock at any given time 2 or 3 lakh tonnes of sugar.

(b) *London Terminal Market—Hedging Operations* :

All sugar operators hedge their transactions in the London/New York/Paris Terminal Markets. This is done with a view to safeguard their interests against any sharp movement of the market. All purchases made from us are promptly covered by sugar merchants in the Terminal Markets. This provides them with perhaps a nominal profit but insures them against any losses. In order to derive benefit of the peak market positions, thought may have to be given to the advisability of the STC also hedging its transactions in the London Terminal Market in the future.

(c) *Sugar Refineries* :

To make an entry in such foreign markets which require only refined sugar, consideration may be given to setting up, as close to the ports as possible, of one or two sugar refineries for producing exclusively for export refined sugar conforming to internationally acceptable standards. This may provide a genuine additionality in sugar production.

6. *Conclusions* :

The Governnment may consider and approve :

(a) determining, latest by the end of October, 1975, of the minimum quantity available for export from the 1975-76 crop;

(b) authorising STC to enter into large scale forward commitments for sales and shipments in 1976;

(c) altering the present method of allocation of export sugar and authorising STC to nominate specific sugar mills for this purpose;

(d) reserving C/D/E 30 grade sugar for export;

(e) amending of the "Sugar (Packing & Marketing) Order, 1970" to permit packing of sugar in 50 kg. A will jute bags, with poly-lining, wherever required;

(f) making available institutionalised facilities for;

—priority movement over railways;

—adequite warehousing capacities at the ports; and

—adequate berthing priorities at the ports and reservation of at least one berth for sugar shipments at Kandla, Bombay, Marmugao, Madras, Vishakhapatnam, Paradip and Calcutta; and also.

(g) indicating for the future a minimum of say 5 lakh tonnes export quota anually on the basis of STC organising a buffer stock as envisaged in paragraph 5(a) above (page 7).

Appendix—XXIII.

Conclusions/Recommendations

S.No.	Para No. of Report	Ministry/ Department concerned	Conclusions/Recommendations
1.	1·92	Commerce	Having gone through the Audit paragraph, the Committee are inclined to take a dim view of the manner in which the question of procuring sugar for exports during 1974 and 1975 had been handled by the Department of Food and Ministry of Commerce. It is disconcerting that on account of what can only be described as an inept handling of the situation by the departments concerned and the State Trading Corporation, resulting primarily from the determination of the export strategy on the basis of unrealistic and unreliable estimates of indigenous sugar production, Government had been placed in the helpless position of having to listen to the dictates of a recalcitrant industry and to incur an extra expenditure of as large a sum as Rs. 5·68 crores on the procurement of 1·07 lakh tonnes of sugar from the free sale market for exports. After an analysis of the evidence tendered before the Committee, it would appear that the sorry state of affairs reflected in the Audit paragraph was not entirely unavoidable. This is discussed in the succeeding paragraphs.
2.	1·93	-do-	The Committee note that in the context of the anticipated increased production of sugar in the 1973-74 season (which was estimated in January 1974 at about 45 lakh tonnes by the Department of Food, the high international prices of sugar and the need for maximising foreign exchange earnings from exports, the Cabinet had decided, on 27 February, 1974, that the aim should be to export a maximum quantity of 7 lakh tonnes of sugar, including 1 lakh tonnes to the United Kingdom and the United States of America, of which 4 lakh tonnes were to be exported immediately. The Cabinet secretary, while communicating on 1 March 1974 the Cabinet decision to the Department of Food, had also indicated that the modalities for export were to be worked out by the Department in consultation with the then Commerce Secretary. The Committee have been informed by the Department of Food that after consultation with the Cabinet and Commerce Secretaries, a Special Committee of Senior Officers of the Ministries of Commerce and External Affairs and the Departments of Food, Economic Affairs and Expenditure was formed to decide on the modalities of export and that this Special Committee had met five times between 13 March, 1974 and 24 July, 1974 and discussed matters relating to mode of sales to different countries on Government to Government basis, export of raw sugar to USA and the quantity of white sugar to be sold by the State Trading Corporation.

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3.	1·94	Commerce	Even before the Special Committee on Sugar had commenced its deliberations and in spite of the fact that all along in the past sugar exports had been effected only out of the levy quota, the Department of Food, in a departure from past practice, had proposed to the Ministry of Finance on 5 March, 1974 that 2 lakh tonnes of sugar should be procured from the free sale quota of the industry at a negotiated price on the ground, *inter alia*, that the drawal of this quantity from the levy quota would reduce the monthly release of levy sugar for internal consumption from the then existing level of 2 lakh tonnes to 1·85 lakh tonnes and also affect the additional releases of levy sugar during the summer months and the festival season. The Ministry of Finance, after carefully considering the "weighty arguments" of the Department of Food and the "substantial budgetary implication" of the proposal which had not been taken into account by the latter, had, however, pointed out on 28 April, 1974 that there might not be any necessity for procuring sugar out of the free sale quota for export and that if the proposal was accepted, the Central Exchequer would have to forego a sum of not less than Rs. 22 crores and probably more, representing the difference between the levy sugar price payable to the sugar mills and the price that may have to be paid to the mills if 2 lakh tonnes were to be procured from the free sale quota. Observing in this connection that it would be "very difficult for the Central Government to forego such a large sum of money in the present context of acute budgetary stringency", the Ministry had advised that in view of the fact that the trend of production was not as earlier anticipated, the proposal might be reviewed and referred back to them by the end of May 1974 when the position in regard to indigenous sugar production would become clearer.
4.	1·95	-do-	Strangely enough, however, even before a conclusive decision to effect exports from the free sale quota had been taken, the Department of Food had held discussions with the representatives of the sugar industry on 26 March, 1974, when the representatives of the Indian Sugar Mills Association (ISMA) and the National Federation of Cooperative Sugar Factories Ltd. (NFCSF) had informed the Department that according to their latest estimate, sugar production in the 1973-74 season would be only around 43 lakh tonnes as against the previous estimate of 45 lakh tonnes and that the Joint Committee of the joint stock and cooperative sectors of the sugar industry had decided to offer to the Department of Food sugar for export from their free sale quota upto 30 per cent of the total quantity to be exported *subject to a ceiling of 2 lakh tonnes*, at a fixed ex-factory price of Rs. 290 per quintal (excluding excise duty). Subsequently, in a letter dated 28 March 1974, the Presidents of ISMA and NFCSF, while confirming the offer made at the meeting on 26 March, 1974, had also drawn attention to the fact that the offer was subject to the condition that the existing proportion of levy sugar and ffee sugar quotas would he continued at 70:30.

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5.	1·96	Commerce	The Committee find that this question was further discussed in the Department of Food on 22 May, 1974 with the Minister of Food & Agriculture and the Ministry of Finance approached again on 24 May, 1974 for concurrence to the proposal to export a total quantity of 6 lakh tonnes by drawing 4 lakh tonnes from the levy quota and the remaining 2 lakh tonnes from the free sale quota. The revised proposal had been based on the premise that since indigenous production might not be more than 41 lakh tonnes, it would not be possible to step up exports of sugar to more than 4 lakh tonnes by depending only on the levy portion of the production, after taking into account the requirements of the internal distribution system. Having regard to the decrease in the estimated production as compared with the earlier estimates and after getting the reasonableness of the price of Rs. 290 per quintal quoted by the industry in March 1974 checked by the Chief Economic Adviser, the Ministry of Finance had agreed, on 1 July, 1974, that it would not be correct to take more than 4 lakh tonnes out of the levy quota for export and had communicated their approval for the procurement of only 1 lakh tonnes out of the free sale quota. The Ministry, while considering the price of Rs. 290 per quintal as reasonable, had also suggested that the Department of Food should negotiate with the industry so as to obtain "as low a price as possible."
6.	1·97	-do-	Negotiations accordingly held with the industry on 15 July 1974 by the Department of Food, however, proved abortive as the industry withdrew its earlier (March 1974) offer of Rs. 290 per quintal on the ground that the levy prices originally fixed in December 1973 had not been revised by Government although the industry had paid a very high price for sugarcane and suffered losses on account of lower recovery and high cost of production and slump in the market during April-June 1974 on account of larger arrivals of khandsari sugar and other factors. The industry had, however, then suggested that the procurement work in respect of exports of sugar out of free sale quotas might be entrusted to the State Trading Corporation who could secure the required quantity for export either by inviting tenders or making direct purchases from the factories at negotiated prices. Subsequently, in a letter dated 19 July, 1974, the ISMA and NFCSF had informed the Department of Food that it would be difficult for them to persuade all their member factories to deliver free sale sugar at a fixed price of Rs 290 per quintal and had suggested that sugar for export from the free sale quota should be purchased on tender basis which would enable Government to obtain their requirement at a price not very much different from Rs. 290 per quintal as "many factories in the low cost regions will be too willing to deliver sugar in the interest of exports."

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7.	1·98	Commerce	After further discussion of this question by the Special Committee on Sugar on 24 July, 1974, the Department of Food was requested to make one more attempt to procure 1 lakh tonnes of free sale sugar for export "at an agreed price" from the industry. Negotiations, were, therefore, once again held on 5 August, 1974 when both the ISMA and NFCSF offered 1 lakh tonnes of free sale sugar at the rate of Rs. 325 per quintal (excluding excise duty), which was referred to the Ministry of Finance for acceptance on 6 August, 1974. Initially, however, the Industry had voiced their earlier suggestion that the quantity required be procured by inviting tenders. The Ministry of Finance had, however, suggested on 21 August, 1974 that the State Trading Corporation should be asked to purchase one lakh tonnes of sugar by inviting tenders and it appears that this decision had been based, *inter alia*, on a statement made by one of the representatives of the industry during negotiations that if the Department of Food went in for tenders, the price was likely to be lower.
8.	1·99	-do-	Before inviting tenders in pursuance of this decision, the State Trading Corporation had also conducted negotiations with the industry on 4 September, 1974, when the latter offered about 1·10 lakh tonnes at Rs. 340 per quintal. Explaining the necessity for these negotiations when a decision had already been taken to invite tenders for the purchase, the State Trading Corporation have informed the Committee that in view of the fact that it was the first time that the Corporation was required to procure large quantities of free sale sugar, a decision had been taken to hold a preliminary meeting with the industry before taking a view whether to issue a tender or negotiate an agreement with the industry and that this meeting was intended to help the Corporation "to familiarise itself with the industry's set-up and its spokesmen" and also "to get a feel of the market conditions." On 11 September, 1974, however, a special meeting of the Directors of the Corporation considered the situation and decided that in view of the uncertain market conditions, it would be more prudent to make purchases through tender.
9.	1·100	-do-	Efforts made by the State Trading Corporation to obtain lower prices by floating a tender on 12 September, 1974 also having failed on account of poor response, negotiations were again conducted with the industry by the Corporation on 18 October, 1974, when the former indicated that they would make a firm commitment for only 80,000 tonnes of C-30 and/or D-30 grades of sugar at an ex-factory price of Rs. 365 per quintal. After prolonged discussions, the industry finally agreed to the price of Rs. 430 per quintal quoted earlier on 4 September, 1974 for both 'C' and 'D' grades, on the condition that the factories should be paid 98 per cent of the price on presentation of documents without furnishing any bank guarantee; that the bank charges/commission incurred in respect of the despatches of sugar would be paid by

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			the Corporation and that the factories should be permitted to sell sugar from both the production years 1973-74 and 1974-75. This was accepted by the Corporation and ultimately 90349 tonnes were supplied at this rate. Subsequently, to meet the export commitments of the Corporation, a further quantity of 0·17 lakh tonnes was procured at the price of Rs. 360 per quintal, finalised on 16 and 26 December, 1974, which was the tariff value declared by Government for the month of December 1974.
10.	1·101	Commerce.	Thus, for the procurement of 1·07 lakh tonnes of free sale sugar for exports, Government, in the above milieu had to pay to the industry, Rs. 5·68 crores more than what it would have paid at the price of Rs. 290 per quintal which, having regard to the industry's cost structure, was certified as reasonable by the Chief Economic Adviser of the Ministry of Finance. The *prima facie* conclusion that emerges from the discussions in the foregoing paragraphs is that the preliminary negotiations held with the industry on 26 March, 1974 by the Department of Food almost simultaneoulsy after having submitted the proposal to effect exports from the free sale quota influenced considerably the subsequent course of events culminating finally in the procurement of sugar from the free sale market at prices of Rs. 340 and Rs. 360 per quintal as against the price of Rs. 290 per quintal quoted initially by the industry and enabled the industry to exploit the situation to its own advantage.
11.	1·103	-do-	No doubt, it has been contended by the Department of Food that a definite decision to export free sale sugar was taken only in July 1974 and not earlier and the negotiations held with the industry for the purchase of free sale sugar in March 1974 before that decision was taken "was purely an exploratory one with no firm commitments on either side." It has also been stated by the Department that the proposal for meeting the industry's representatives on 26 March, 1974 was not initiated by any of its officers and that while the proposal to procure 2 lakh tonnes of sugar from the free sale quota had been referred to the Finance ministry for their concurrence in accordance with the normal practice, the industry's representatives, "who normally meet" the officers of the Department in connection with their difficulties, problems and assistance required, etc. or to advise the Department on how to improve production, "happened to meet" the officers of the Department, when they offered to cooperate and make available a limited quantity of free sale sugar upto 30 per cent of the requirements. The Committee have further been informed in this context that though the idea that exports should be maximised as much as possible was not unknown to the industry, the officers who met the industry's representatives had not disclosed to them as to what would be the quantity to be exported.

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12.	1·103	Commerce	The Department have also argued that the exploratory discussions with the industry had not placed Government at a disadvantage and given rise to avoidable speculation. While conceding that the industry could certainly play with the price of free sale sugar and could take "undue advantage", the Department hae, however, pointed out that the price range obtaining in the important sugar markets of the country during the relevant period would indicate that the price fluctuations were "within narrow limits" during the period from March to June 1974 and it was only from July 1974 onwards, after the fall in production during the 1973-74 season became known and the availability of khadsari sugar was also meagre, that the prices started going up. The Departmet have contended that it could not be, therefore, said that the industry took an undue advantage of the discussion held on 26 March, 1974, and the prices of wholesale sugar were deliberately manipulated by it.
13.	1·104	-do-	It, however, appears on the evidence that adequate care was not taken by the Department to ensure that the industry did not get to know, during what has been described as "a purely exploratory" discussion, Government's thinking on this important question. Though it was stated during evidence by the Secretary, Department of Food that the quantities to be exported "were never revealed" to the industry at these discussions, the Committee find, from the letter of 28 March, 1974 from the Presidents of ISMA and NFCSF, that at the meeting held on 26 March, 1974, the question of exports during 1974 was generally discussed when a suggestion had been made by the representative of the Department of Food that "if need be, sugar for exports may be procured in the proportion of 70% levy sugar and 30% free sale sugar". It would, therefore, appear that Government's intention of effecting exports from the free sale quota and to make a departure from the past practice in this regard had been communicated to the industry in March 1974 itself and it is inconceivable to the Committee that the industry would not have taken advantage of this information. No minutes of the meeting held on 26 March, 1974 having been prepared, the Committee have also not been in a position to satisfy themselves fully that the quantities to be exported were not, even inadvertantly, disclosed to the industry, it is, however, significant in this context that the quantity of free sale sugar offered by the industry (2 lakh tonnes) also corresponded to the quantity initially proposed by the Department of Food to be exported from the free sale quota. The Committee are, therefore, doubtful how far it was prudent to have disclosed to the industry, during the exploratory discussions, Government's intention to export free sale sugar without having any firm indication of the actual production and in the absence of any definite decision in this regard.

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14.	1·105	Commerce	As regards the argument of the Department of Food that the inference that the exploratory discussions had placed Government at a disadvantage and had given rise to avoidable speculation was not correct in view of the steady condition of the market during March to June 1974, the Committee need hardly point out that till June 1974, no definite decision to effect exports out of the free sale quota having been taken and in the context of the easy availability of khandsari sugar during this period, the industry could have ill afforded to play with the free sale sugar prices and that while the bullish trend of the free sale sugar market from July 1974 onwards could perhaps be attributed to a certain extent to the fall in production and meagre availability of khandsari sugar, the final decision to procure sugar for export from the free sale quota taken on 1 July 1974 must have had its impact on the prices which admittedly could be manipulated by the industry. It would, therefore, be facile to assume that the industry would not have exploited the situation to its own advantage. Yet another fact which is relevant in this connection is that even as late as in August 1974, the judgement of the Ministry of Finance was that it might be possible to obtain a lowr price than Rs. 325 per quintal quoted by the industry on 5 August 1974 and even in July 1974, the industry's own representatives had suggested that Government might be able to obtain their requirement from the factories in the low cost regions at a price "not very much different" from Rs. 290 per quintal. It is also significant in this context that it was the industry which at every stage suggested the course of action to be adopted by Government. It is also amply evident that the industry had resiled from its earlier offer primarily because its expectations of a *quid pro quo* arrangement, *viz.*, revision of levy sugar prices fixed in December 1973 and payment of compensation by the State Governments for the high cane price paid by the factories, had not materialised. In these circumstances, the conclusion that the premature step of holding discussions with the industry in March 1974 influenced the subsequent course of events is fairly inescapable.
15.	1·106	-do-	The Committee find that purchases of free sale sugar at considerably high prices had to be resorted to mainly because the State Trading Corporation had entered into export commitments in excess of the quantities initially authorised. Though the decision taken on 1 July 1974 to procure 1 lakh tonnes of free sale sugar for export had been communicated formally to the Corporation by the Department of Food only on 22 August 1974 and arrangements had also not been finalised to procure free sale sugar from the internal market, the State Trading Corporation had entered into export commitments by 23 July 1974 for a quantity of 0·63 lakh tonnes of sugar over and above 3 lakh tonnes of white sugar and 1 lakh tonnes of raw sugar (total : 4 lakh tonnes) authorised

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			for export out of the levy quota by the Department of Food. This, according to the Department of Food, "had also to some extent contributed to the difficult situation."
16.	1·107	Commerce	The picture that emerges in this regard is somewhat disquieting. While the Chairman of the State Trading Corporation contended before the Committee that the export commitments entered into by the Corporation were always within the allocations sanctioned and that the question of over-contracting just did not arise, the Secretary, Department of Food maintained that the allocation available at that time to the Corporation was only 4 lakh tonnes, as against which contracts had been entered into for a total quantity of 4·63 lakh tonnes till 23 July 1974 (including 1 lakh tonnes of raw sugar meant for U. K. and U.S.A. under international agreements). The Committee find that at the meeting of the Special Committee on Sugar held on 24 July 1974, the representative of the Department of Food had also pointed out that the Department "had not informed the STC of the additional provision of 1·00 lakh tonnes for export out of free sale quotas (approved by the Ministry of Finance on 1 July 1974), and arrangements for its procurement had not been finalised yet, and in the absence of any such information STC should not have effected excess sale without obtaining the specific concurrence of the Department of Food." The Food Secretary had agreed with this view and had added that while the Department "would hlep to fulfil the commitment already made by the STC", the Corporation was not to make further sales without the prior concrurrence of the Department of Food.
17.	1·108	-do-	In view of the conflicting nature of the statements made by the representatives of the Department of Food and the State Trading Corporation on this question, the Committee have found it necessary to examine this in some detail. On detailed enquiries, they are surprised to learn that even while the 24 May 1974 proposal of the the Department of Food to export a total quantity of 6 lakh tonnes of sugar (4 lakh tonnes from the levy and 2 lakh tonnes from the free sale quotas) was under the Finance Ministry's consideration and a final decision was yet to be taken, "it was clear when the Ministers of Commerce and Agriculture met in June that at least one lakh tonnes would be agreed upon." While admitting in this context that when the State Trading Corporation entered into export commitments in excess of quantities allocated, "it did not have a written authority from the Department of Food", the Secretary (Foreign Trade), however, informed the Committee that "as far as information or knowledge of this discussion (between the Ministers) was concerned", the Corporation was "fully in the picture" and "knew all the time as a result of close contact" with the Food Department and the Commerce Ministry that at least 1 lakh

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			tonnes as against the 2 lakh tonnes asked for were going to be released for their sales. He further added that after studying the market trends at that time and finding that it had "to enter the market in a big way", the Corporation thought, "in its commercial wisdom", that it "should start making commitments in anticipation of this release of one lakh tonnes" and that, in his analysis, the State Trading Corporation "acted in very good faith and did its best to get the maximum unit value."
18.	1·109	Commerce	If this were indeed so, it is not clear to the Committee why no formal communication to this effect was sent by the Department of Food to the State Trading Corporation before 22 August 1974 and why it was necessary for the Special Committee on Sugar to have criticised the action of the State Trading Corporation. It is also significant that no reference had been made by the Corporation's representative at the Special Committee's meeting of 24 July 1974 to the reported meeting between the two Ministers. It is still more strange that, apart from a note recorded on 24 June 1974 in the relevant file of the Commerce Ministry by the then Additional Secretary in the Ministry, wherein a mention had been made by him that the Food Secretary had informed him that "at the meeting between the Commerce Minister and the Minister for Agriculture already a decision has been reached to increase the quota for export from 4 lakh tonnes to 5 lakh tonnes", no formal record of the discussion between the two Ministers is stated to be available either in the Commerce Ministry or the Department of Food. The note recorded by the Additional Secretary was also not sent to the Department of Food; neither had he made any mention of this note and the reported discussions between the two Ministers at the 24 July 1974 meeting of the Special Committee which he subsequently attended. Besides, apart from informing the Committee that the meeting between the two Ministers "appears to have been of an informal nature" and no representative of the State Trading Corporation "appears to have been present at this meeting", neither the Commerce Ministry nor the Department of Food have been able to vouchsafe when this alleged meeting between the two Ministers was held and when and how exactly the reported decision of the two Ministers to release 1 lakh tonnes of free sale sugar for export was conveyed to the State Trading Corporation. In these circumstances, the Committee have not been in a position to satisfy themselves fully whether the State Trading Corporation was justified in entering into export commitments in excess of the allocations made by the Department of Food.
19.	1·110	-do-	The reasonableness of the prices paid to the industry for the procurement of free sale sugar is also open to question. The Committee find that while the industry had quoted the price of Rs. 290 per quintal and Rs. 325 per quintal respectively in

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			March and August 1974, free sale sugar for export during 1974 had actually been procured in October 1974 and December 1974 at Rs. 340 per quintal and Rs. 360 per quintal respectively. The State Trading Corporation have sought to justify these prices on the ground that the free sale sugar market was bullish at the relevant time and the price of Rs. 340 per quintal (October 1964) was considered to be in line with the than prevailing market level and that the price of Rs. 360 per quintal finalised in December 1974 was "the best possible obtainable" and was in line with the tariff value declared by Government for December 1974. It is, however, not clear to the Committee why the analogy of the tariff value, which is supposed to be an index of the then prevailing wholesale prices, was not applied on the earlier occasions. The Committee find that when the price of Rs. 340 per quintal was agreed upon in October 1974, the tariff value for free sale sugar was only Rs. 320 per quintal and that when the industry had quoted the prices of Rs. 340 per quintal (September 1974), Rs. 325 per quintal (August 1974) and Rs. 290 per quintal (March 1974), the then prevailing tariff values were respectively Rs. 305 per quintal, Rs. 290 per quintal and Rs. 270 per quintal. Besides, apart from the quantity of 0·17 lakh tonnes procured at the price of Rs. 360 per quintal in December 1974, for export during the year 1974, the Committee have been informed that additional quantities of 1·72 lakh tonnes were also procured at the same price of Rs. 360 per quintal finalised in December 1974 and were shipped during 1975. In view of the fact that production from the 1974-75 sugar season would have started coming in by then leading to a fall in free sugar prices and the tariff value for free sale sugar had also been subsequently reduced periodically by Government (Rs. 345 per quintal with effect from 1 February 1975, Rs. 330 per quintal with effect from 1 March 1975 and Rs. 310 per quintal with effect from 1 April 1975), the Committee are unable to appreciate why the State Trading Corporation failed to take advantage of the downward trend of the free sugar market and bound themselves to the obviously unreasoable price of Rs. 360 per quintal in respect of shipment effected during 1975.
20.	1.111	Commerce	Apart from the immediately ascertainable extra expenditure of Rs. 5·68 crores on the transaction highlighted in the Audit paragraph, the decision to effect exports from the free sale quota, in a departure from past practice, has also resulted in a considerable additional burden on the exchequer by way of difference between the price that would have been payable had sugar for export been procured only from the levy quota and the prices actually paid for the purchase of free sale sugar, as well as in an erosion of the profits that would otherwise have been available to Government from exports of levy sugar. It is, therefore, a moot point whether, even if export of additional quantities had been considered inescapable in the interest

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			of maximising foreign exchange earnings, the entire quantity of 5·07 lakh tonnes exported during 1974 could not have been obtained only from the levy quota. This could have been done either by regulating suitably the releases of levy sugar for internal consumption or, in the alternative, by adjusting suitably the proportion of levy and free sale quotas and obtaining the additional quantity required for meeting the export commitments out of such an enhanced levy quota rather than succumbing, as it appears to have happened, helplessly to the dictates of the industry.
21.	1·112	Commerce	The Committee have been informed in this connection that if a quantity of more than 4 lakh tonnes had been drawn for export out of the levy quota, this would have adversely affected the availability of levy sugar for the public distribution system and, besides causing resentment among the consumers, would have also pushed up the price of free sale sugar and it was, therefore, not considered proper to do so. The Committee, however, find that internal consumption of sugar had remained almost constant during the 1972-73 and 1973-74 sugar seasons (being respectively 35·11 lakh tonnes and 35·29 lakh tonnes) in spite of the fact that the total production of sugar in the 1973-74 season (39·48 lakh tonnes) was more than that in the 1972-73 season (38·73 lakh tonnes) and at the beginning of the 1973-74 season, a carry over stock of 8·64 lakh tonnes of sugar was also available as against the carry-over stock of only 5·99 lakh tonnes at the beginning of the 1972-73 season. Besides, by the time sugar for exports from the free sale quota had actually been procured, the 1974-75 sugar season had also commenced. It is also significant in this context that even as late as in September 1974 a suggestion had been made at the special meeting of the Board of Directors of the State Trading Corporation (11 September 1974) that efforts to obtain more levy sugar out of the current crop should continue so that purchase of free sale sugar could be postponed to a later date. The Committee cannot, therefore, help feeling that with a little initiative and imagination, ways and means could have been found to confine the exports only from the levy quota.
22.	1·113	—do—	As regards the other alternative of revising upwards the proportion of the levy quota, the Department of Food have informed the Committee that as this was purely a commercial transaction between the State Trading Corporation and the industry, Government had not considered this point. Yet, Government had not hesitated to reduce, during the 1974-75 sugar season the levy quota from 70 to 65 per cent and though it has been claimed that this decision "was taken in the best interest of the consumer", the Committee cannot resist the impression that the policy of partial control on sugar has favoured the industry more than consumer. They consider it regrettable that Government had not been able to take adequate

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			corrective action to discipline the industry, particularly in the light of the recommendations of the Tariff Commission, 1973, that "if the industry cannot be disciplined to keep the price fluctuations of free market sugar within reasonable limits, or if any practical mechanism cannot be evolved by Government to control the price and distribution of such sugar, the solution may lie in a suitable adjustment, from time to time, in the ratio between the levy quota and the free market quota so that the profits accruing to the industry through free sale sugar do not show any run-away tendency."
23.	1·114	Commerce	It would, therefore, be evident from the discussions in the foregoing paragraphs that the manner in which the question of procurement of sugar for export was handled was far from satisfactory and that the decisions taken from time to time were weighted more in favour of the sugar industry than of the interest of the Government. The circumstances in which the State Trading Corporation entered into export commitments in excess of the allocations and the Department of Food considered it necessary to discuss with the industry Governments intention to export free sale sugar even before a definitive decision was taken in this regard have also not been satisfactorily explained and have given rise to grave doubts in the Committee's mind. It would appear, therefore, that there is more to this transaction than what meets the eye. Having due regard to the number of missing links in the transaction and the magnitude of the extra expenditure involved, the Committee are firmly of the view that only a detailed enquiry under the Commission of Enquiry Act would bring to light the wider ramifications of the transaction commented upon in the Audit paragraph. They accordingly recommend that such an enquiry be instituted forthwith and completed expeditiously.
24.	1·115	--do--	The state of affairs reflected in the Audit paragraph could well have been avoided had the export strategy been determined on the basis of a more realistic and reliable forecast of indigenous sugar production. The Committee are concerned to note that on account of the inability to forecast more accurately production trends, the estimates had to be periodically revised downwards within a short span of time, contributing in no small measure to the disastrous consequences that ensued. While the Cabinet had decided, in February, 1974, that a maximum quantity of 7 lakh tonnes of sugar might be exported on the basis of the estimates made in January, 1974 by the Department of Food that sugar production during the 1973-74 sugar season (October 1973-September 1974) would be about 45 lakh tonnes, the industry had informed the Department of Food, on 26/28 March 1974, that, according to its estimate, the production would not be more than 43 lakh tonnes. Actual production of sugar till April 1974, when

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			the normal crushing period of the factories would have come to a close, was, however, only 35·81 lakh tonnes and the estimates were further revised by the Department of Food in May, 1974 to 41 lakh tonnes. In spite of the downward revision, from time to time, of the estimates, actual production during the sugar season amounted to only 39·48 lakh tonnes, which was only slightly more (0·75 lakh tonnes) than the production of 38·73 lakh tonnes achieved during the 1972-73 sugar season.
25.	1·116	Commerce	The Committee have been informed in this connection that the original estimates were only "very rough estimates based on the area which is brought under cultivation of sugarcane" collected through the Economics and Statistical Organisation of the Department which, in turn, obtained the information from the State Governments as well as its own offices located in various States, and through the sugar factories themselves. The Committee, however, find that while the Directorate of Economics and Statistics in the Ministry of Agriculture & Irrigation prepares the estimates of area and production of principal crops (including sugarcane) on the basis of the data furnished by the State Government which collect relevant information in this regard through their Departments of Agriculture, Industries and Cooperation and the Offices of the Cane Commissioner and Directorates of Sugar (where they exist), much of the statistical data in regard to production trends, capacity utilisation, rate of sugar production, etc. are obtained from the sugar factories themselves and the associations (ISMA, NFCSF, etc.) of the sugar industry. Admittedly, no machinery is available with the Department of Food to check the installed capacity or the utilisation rate during the period of crushing and reliance is placed in this regard on the industry itself under the 'Self Removal Procedure' for excisable commodities. The State Governments also appear to place reliance on the industry itself for compiling data on sugar production.
26.	1·117	—do—	It would, therefore, appear that in so far as estimation of sugar production is concerned, on the basis of which the export strategy is determined, an almost exclusive reliance is placed on the industry and that no monitoring machinery is available with the Department of Food to check the veracity and reliability of the data furnished by the industry so as to safeguard against the possibility of exaggerated and unrealistic forecasts. In the light of the observations contained in the Report of the Central Excise Self Removal Procedure Review Committee (September 1973) in regard to various malpractices adopted by the sugar factories (underweighment of cane with a view to evading duties, manipulation of production accounts so as to claim higher rebates or larger refunds etc.,) the committee are doubtful how for it is a sound policy to place an excessive reliance on the data made available by the industry.

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27.	1.118	Commerce	These facts, therefore, only serve to emphasise the need for devising a more suitable system for a scientific and more accurate forecasting and estimation of production as to reduce the wide gap that exists at present between the estimates and actuals. The food Secretary, however, appeared to derive comfort from the fact that on, account of the imponderable factors involved, even technically best equipped countries were not in a position to predict fairly and accurately as to what would be the production of a particular crop. The Committee have also been informed subsequently by the Department of Food that the variations between the estimates and actuals of production were attributable to changes in climatic conditions, incidence of pests and diseases, the quality of cane, diversion of cane to gur to khandsari units etc., and that these factors are such that they do not lend themselves to making a more accurate forecast of production. While the Committee are not unwilling to concede that any estimate can be vitiated by a number of unforeseen and unpredictable factors, they are, however, of the view that it should not be beyond the capabilities and ingenuity of experts in the field of econometrics to evolve a more satisfactory system of forecasting where the reliance at present placed on the industry could be minimised, if not altogether eliminated. A critical review of the projections made from time to time would also appear to be necessary to determine what actually went wrong in the estimation so as to adopt concrete corrective measures. The Committee, therefore, recommend that such a review should be undertaken with the help of expert assistance and the procedures and practices for the estimation of production streamlined with a view to ensuring that the estimates approximate as closely as possible to the actuals.
28.	2.106	-do-	The Committee are concerned to note that while on the one hand, Ministry by its inept handling of the situation, had to incur an extra expenditure of Rs. 5.68 crores on the procurement of sugar for export, the State Trading Corporation, on its part, had concluded a number of export sales at rates below the then prevailing international prices and that its failure to enforce the contractual provisions in regard to breach of contract in a specific case of default had resulted in the short-realisation of a staggeringly large sum of Rs. 14.91 crores (£78.95 lakhs). Despite all protestations to the contrary, the Committee cannot help feeling, on the basis of the facts disclosed in the Audit paragraph and the evidence tendered before them, that the final picture which emerges of the Corporation's performance is anything but satisfactory. In particular, they are, to say the least, thoroughly dissatisfied with the manner in which certain deals were concluded with a commodity trader not normally in the international sugar business in preference to other leading and better known sugar trade houses and concessions were extended to him to the detriment of the country's

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			interests even after he had defaulted in the performance of his contracts. This case, as the discussions in the foregoing paragraphs would indicate, also gives rise to suspicion of *malafide* intentions on the part of those concerned.
29.	2·107	Commerce	To begin with, the Committee find from the Audit paragraph that while the Department of Food, before the responsibility for sugar exports was entrusted to the State Trading Corporation on agency basis, had all along finalised contracts for the sale of raw sugar under the U. S. Sugar Act at prices determined on the average of the prices of the Spot Contract No. 10 quoted (in terms of U. S. Cents per pound c.i.f. duty paid delivered basis) by the New York Coffee and Sugar Exchange for the period from March to September/October of that year plus a fixed premium, all the sales effected under the Act by the State Trading Corporation were below the U. S. domestic quotations. Thus, in respect of contracts concluded between 24 and 31 May 1974 for a total quantity of 75,000 tonnes of raw sugar to be shipped during June—August, 1974 (actual quantity shipped : 74,732 tonnes), the sale prices obtained by the Corporation worked out to 19·46 and 19·37 Cents per pound (f.o.b.), equivalent to only 22·58 and 22·49 cents per pound c.i.f. U.S. port duty paid delivered basis, as against the Spot Contract No. 10 prices of 23·25 Cents perpouud on 15 May 1974 and 24·25 Cents per pound from 24 to 31 May 1974. According to Audit, these sales below the then prevailing No. 10 Contract prices had resulted in an amount of U. S. Dollars 27·79 lakhs (Rs. 2·23 crores) being realised less.
30.	2·108	-do-	It has, however, been contended by the State Trading Corporation that the alleged loss of Rs. 2·23 crores would not arise "if the sales are evaluated with comparable and relevant data" and that since the actual shipments against these contracts were made much later (June—August, 1974) and the shipments would take about eight weeks to arrive at U.S. ports, it would not be correct to compare the prices obtained by the Corporation for distant deliveries either with the terminal prices obtaining on the New York Coffee and Sugar Exchange on a given date for prompt delivery (spot prices) or with prices realised on these dates by other sugar exporting countries for prompt deliveries. It has been further argued that the sale prices should more appropriately be compared with the corresponding terminal 'futures' quotations having regard to the expected time of arrivals at U.S. ports of shipments effected by the Corporation. On this basis, it has been claimed that the State Trading Corporation had actually commended premia ranging from 10 to 60 dollars per tonne on the sales concluded in May 1974 under the US. Sugar Act, which resulted in the realisation of a total premium of U.S. Dollars 22·98 lakhs over the No. 10 futures quotations on the dates of sale applicable to the period when the cargoes sold by it were likely to arrive at U.S. ports.

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31.	2.109	Commerce	The Committee, however, find that even if the then ruling trends of 'futures' quotations on the New York Coffee and Sugar Exchange are taken into account, the prices obtained by the State Trading Corporation were comparatively less. A study of the then prevailing market trends seems to indicate, *prima facie*, that the State Trading Corporation had not taken full advantage of the bullish trend during this period of the international Sugar market caused by a continuing tight supply/ demand situation. According to a fortnightly newsletter published by a New York sugar broker (Czarnikow-Rionda Company, Inc.,) the tight Supply/demand situation which had become evident in April 1974 had continued during May and June 1974, as a result of which the domestic raw sugar market had ruled firm. Pointing out in this context that during this period the trade remained "very much on a hand-to-mouth basis being forced to do so by a lack of plentiful supplies", the broker had gone on to predict, in his newsletter of 9 May 1974, that on account of the early conclusion of the harvest and crushing operations of the Cuban 1973-74 sugar crop coupled with the reduction of the area under beet in Europe, hopes of a European bumper crop and a possible relief from the then current tightness late in the year or early in 1975 had dimmed. Again, on 23 May 1974, the broker had indicated that the market was expected to remain firm unless and until additional prompt supplies could be found "to relieve a situation in which refiners find themselves with very low sugar stocks."
32.	2·110	-do-	The Committee further find from these fortnightly newsletters that during the fortnight ending 25 April 1974, futures quotations on the New York Coffee and Sugar Exchange had advanced over the entire range of delivery months and that after reaching a high of 24·70 Cents per pound on 22 April 1974 and declining slightly for May deliveries, the prices for July and September deliveries had registered solid gains of 295 and 244 points respectively. Subsequently during the fornight ending 9 May 1974, record high prices were reached on 8 May 1974 in the New York No. 11 futures market, when the July 1974 contract traded at 25·15 Cents per pound and closed at 24·50 Cents per pound, representing a gain of 307 points, while September, and October contracts closed at 22·51 and 22·41 cents per pound respectively, registering gains of 341 and 355 points. However, despite the firm tone of the actuals market (spot quotations) and the continuing signs of a tight supply/demand position, futures values for July, September and October deliveries declined during the fortnight ending 23 May 1974 by 236, 243 and 226 points respectively to 22·14, 20·08 and 19·15 cents per pound, presumably because of the apparent desire on the part of the U. S. refineries to use their buying power on the acquisition of prompt deliveries of raw sugar so as to keep their

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			refineries running in the context of an increasing realisation that the tight supply/demand position would persist in the second quarter of the year and also possibly continue through the third quarter.
33.	2·111	Commerce	Commenting on this decline in futures values at a time when supplies were at their tightest, the New York Sugar broker (CRCO, Inc.) had pointed out, *inter alia*, on 23 May 1974, that the decline was attributable to factors which were beyond the scope of the sugar market like general speculator sentiment, prices of other commodities, foreign exchange adjustments, inflationary pressures and general economic and political uncertainties of various types. While conceding in this context that it would be futile to argue whether the then prevailing spot quotations or the futures quotations were the correct indices under the then existing supply and demand conditions, the broker had nevertheless gone on to observe that though the market was "slightly tested" during the week with futures values declining, "a major downward move in sugar values" was unlikely at that juncture and "not sustainable for any length of time."
34.	2·112	-do-	That this decline in the futures quotations was only a temporary phenomenon would be evident from the fact that during the subsequent period (May 24– June 20, 1974), the futures values generally followed the firmer lead of the actuals market (spot quotations). Thus, during the fortnight ending 6 June, 1974, the period when the State Trading Corporation had concluded its sales of raw sugar at the c.i.f. US ports (duty paid delivered basis) prices of 22·58 cents and 22·49 cents per pound, the futures quotations on the No. 10 Contract had closed on 6 June 1974 at 25·20/25·00, 24·60/25·00 and 23·90 cents per pound respectively for July, August and September deliveries and at 21·87 cents per pound for October deliveries. Again, on 20 June 1974, the futures quotations for September deliveries had closed at 24·75 cents per pound.
35.	2·113	-do-	It is also significant in this context that while the f.o.b. prices obtained by the Corporation ranged between US Dollars 427 and 429 per tonne (19·46 and 19·37 cents per pound), three Columbian shippers had combined to sell 12,000 tonnes raws, to be shipped in the first half of August, in tender to a New York Trade House at a price of US Dollars 494 per tonne (f.o.b.) and sellers from Salavador had also similarly placed 4,000 tonnes, July/August shipment, with another Trade House at a reported f.o.b. price of 22·68 cents per pound. The rising trend of the futures market would also be evident from the fact that on 5 June 1974, the New York subsidiary of a Paris Trade House had won a tender in the Dominican Republic, paying even for a shipment to commence as late as in March, 1975, nearly nine months later, the price of 19·515 cents per pound (f.o.b.), which was about 150 points above the equivalent New York

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			quotation on that day. Even during the subsequent periods (June 7—June 20, 1974 and June 21—July 11, 1974), considerable quantities of raw sugar had changed hands at prices higher than that obtained by the State Trading Corporation for deliveries during August to October 1974 as detailed below : (i) During the period 7 June—20 June, 1974, Salvadoran sellers had paced in tender 4,000 tonnes for July/August shipment with a New York Trade House at 24·786 cents per pound (f.o.b.). (ii) Even in respect of October shipments, two lots (10,000 tonnes each) of Peruvian raws had been sold to New York Trade Houses at US Dollars 21·146 per 46 kils FAS ($ 459·50 per tonne) and US Dollars 21·201 per 46 kils FAS ($ 460·90 per tonne). (iii) As late as on 8 July 1974, in a tender Columbia, a Northern Refiner had bought through a Trade House a cargo of 12,000 tonnes Columbian raws, for shipment by vessel to present August 25/September 10, at a reported price of US Dollars 513·425 per tonne, f.o.b.
36.	2·114	Commerce	It would, therefore, appear that except in respect of a quantity of 14,000 tonnes shipped in August 1974 and which would have been delivered at US ports during October 1974, the State Trading Corporation had failed to take full advantage of the admittedly tight supply demand position of the raw sugar market and the consequential rising trend of raw sugar prices and had instead sold its cargoes at an inopportune moment when there was a temporary slump in the futures values. It would also appear that the Corporation had not fully appreciated certain developments on the international sugar front such as the inauspicious start of the European beet season, serious damages to the beet crop on account of adverse weather conditions and the need for resowing in certain areas, the unusually early conclusion of the Cuban Sugar season, etc. so as to exploit the situation to the country's advantage. The Committee consider it regrettable that the State Trading corporation had not assessed the market situation properly and taken care to ensure that its sales were effected at the most appropriate time and at the most advantageous prices.
37.	2·115	—do—	The incorrect appreciation of the behaviour of the sugar market had also led to the rejection by the State Trading Corporation of the offers received from three reputed trade houses for the total quantity on the average pricing pattern which, if accepted, would have given an additional price advantage of Rs. 12·46 crores to Government. The Committee were surprised to learn that in spite of the firm tone of the raw sugar market and the fact that the international prices of sugar had started rising sharply from the middle of July 1974, the State Trading Corporation had left

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			these bids out of account on the assumption that the international sugar market would enter a period of lower price levels from the earlier high levels. In the context of the then prevailing bullish trend of the market, which has been discussed at some length in the foregoing paragraphs, this was a somewhat facile assumption to make and the Committee are, therefore, not entirely satisfied with the explanation of the State Trading Corporation.
38.	2·116	Commerce	A similar disconcerting picture also emerges in respect of sales of white sugar by the State Trading Corporation. The Committee note that while the f.o.b. prices obtained for Indian White Sugar between 17 April 1974 and 16 July 1974 were substantially higher than the London daily prices (LDP) for raw sugar (c.i.f. Caribbean ports) the f.o.b. prices obtained from exports of Indian White Sugar during the period 22 July 1974 to 23 September 1974 were on three occasions slightly higher, on two occasions equal to and on the four remaining occasions lower than the London daily prices for raw sugar. Further, though international prices of sugar started rising rapidly from the middle of July 1974 and the London daily prices rose by 44 per cent from £ 250 to £ 360 per ton between 16 July 1974 and 23 September, 1974, the f.o.b. price for Indian White Sugar rose during the same period by about 26 per cent only from £ 270 to £ 341 per tonne.
39.	2·117	—do—	Explaining the reasons for not availing of this price rise and selling sugar at lower prices during July—September, 1974, the Chairman of the State Trading Corporation informed the Committee during evidence that while the prices quoted on the London market were certainly indicative of the market conditions and the market did rise in August and September, large quantities of sugar could not be accumulated and shipped at one time in the hope that prices would rise. Besides, sales could be effected only according to a programme depending on the availability of buyers. It has been further contended that depending upon the demand at any point of time for Indian Sugar, the rates of premium vary and cannot strictly correspond to the actual premium commanded by other international suppliers and that the prices obtained by the State Trading Corporation compared favourably with those obtained by other countries.
40.	2·118	—do—	The Committee are, however, unable to appreciate the logic of these arguments. The fact remains that during this period, when the sugar market continued to rule firm and there was little to indicate that the supply situation was becoming less tight, as many as nine cargoes had been sold by the Corporation. It was, therefore, not an instance of stocks not being available to take advantage of the rising prices. Besides, in view of the fact that a sellers' market existed during this period on account of a continuing tight supply/demand situation, the Committee see no reason why higher premia could not have been commanded for

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			Indian sugar. It is also significant that certain other developments on the international sugar front such as the lower yields from the beet crop in some European countries, failure of the beet crop in the United Kingdom on account of virus infections, the suspension in August 1974 by the U.S. Department of Agriculture of the restriction on import of sugar in the USA during the remaining months of 1974, etc., had taken place at that time. The Committee cannot, therefore, resist the impression that adequate advantage had not been taken of the rising trend of the market at that time by the State Trading Corporation and that such a situation could well have been avoided by a more intelligent and scientific assessment of the market conditions and a better planning of the sales strategy.
41.	2·119	Commerce	In this context, the timely and regular collection and a collation of data in regard to world market conditions and price trends assume great importance. Since the success or failure of the export strategy depends to a very large extent on a proper appreciation of the market situation at a given point of time, the Committee need hardly emphasise the importance of the exporting agency being armed with all relevant data relating to international production trends, availability of and demand for sugar, behaviour of world prices, recent happenings on the world sugar front, etc. so as to be in a position to regulate export sales in the best interests of the country. it would, however, appear from the facts brought out in the foregoing paragraphs that despite the existence of an apparently elaborate machinery in the foreign offices of the State Trading Corporation and its Management Services Division for the collection and analysis of market intelligence, the Corporation's performance in this important sphere has been somewhat unsatisfactory. The impression in the Committee's mind that only comparatively junior officers with limited expertise and experience and inadequately trained in the nuances of gathering information of commercial value are posted in the Corporation's foreign offices also needs to be dispelled. The Committee would, therefore, urge the State Trading Corporation and the Commerce Ministry to review comprehensively the adequacy of the existing arrangements for the collection and collation of market intelligence so as to take necessary remedial measures for improving their usefulness. An effective channel of communication should also be maintained between the Corporation's foreign offices and the Indian Trade Missions, Commercial counsellors, Embassies and other agencies abroad entrusted with the collection of market intelligence so as to ensure the timely and efficient exchange of information which could form the basis for the determination of the strategy to be adopted.
42.	2·120	—do—	The relatively lower realisations obtained by the State Trading Corporation from its sugar sales also give rise to doubts in regard to the efficacy of the modality adopted by the Corporation for concluding export sales. The Committee note in this connection that while the Department of Food

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			used to sell sugar for export through open tenders, which is the normally accepted method of purchase or sale and also a well recognised international trade practice, the State Trading Corporation had adopted the 'bid system' under which contracts were entered into through restricted negotiations with international sugar and commodity traders. Justifying this deviation from the open tender system, the Commerce Ministry have stated that "it was felt that better prices would be realised if sales were made against specific enquiries and market demand rather than through tenders when the market may lack the necessary buying strength." The State Trading Corporation have further informed the Committee that there was no specific advice from Government that it should follow the open tender system in its sugar sales and that, in its commercial judgement, after an attempt at floating a tender on 9 July, 1974 which was not "particularly encouraging", the Corporation had taken the view that the bid system, which provided flexibility in negotiations and enabled maximum and prompt advantage being taken of the market situation at any particular point of time, was likely to secure the best prices.
43.	2·121	Commerce	It has also been brought to the Committee's notice that while the open tender system had built-up administrative safeguards and would theoretically permit all interested parties to participate, it suffers from the following disadvantages : (*a*) Time is lost in a tender as a few days notice has necessaryily to be given to enable parties to submit efforts. (*b*) The timing of a tender issued in the absence of a specific demand from buyers does not evoke the best response. (*c*) The time of delivery has a direct bearing on the price realisation and since the delivery period, in a tender, is stipulated by the seller, it may or may not suit the buyers' requirements. (*d*) A tender system is less elastic and the bidders have to provide a cushion in the prices offered to cover the risk over a longer period for which the offer has to be kept valid as against a bid, the validity could be for a short period, even for an hour or less.
44.	2·122	—do—	While the Committee are not unwilling to concede that it might perhaps be difficult and impractical to prescribe a rigid methodology of sales and that a decision in regard to the system to be adopted would have to be taken with reference to the situation prevailing at a particular point of time, they, however, find that the Special Committee on Sugar, at its first meeting held on 13 March, 1974, had decided, *inter alia*, that quantities, other than those sold by bilateral negotiations on a Government to

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			Government basis, would be sold by the State Trading Corporation by international tendering. Besides, since a sellers' market existed during the period under review, the Committee feel that better results might have ensued had sales been effected through tenders. This is also borne out by the fact that compared to the prices obtained by the State Trading Corporation by adopting the bid system, substantially higher prices had been obtained in tenders floated by other countries like Columbia, the Dominican Republic, Salvador, etc. Since the bids are valid only for very short periods, even an hour or less in some cases, and the stakes involved are also very high, the Committee also apprehend the possibility of the unfettered discretion that appears to vest in individual officials of the Corporation for finalising deals and obtaining subsequently the *ex-post facto* approval of the Board being abused. This fear stems from the fact that out of 21 contracts concluded by the Corporation between 17 April, 1974 and 23 September, 1974, as many as 9 contracts had been confined to one commodity trader, dealings with whom have been examined in some detail later, while the remaining 12 contracts had been distributed amongst 5 other better known sugar trade houses.
45.	2.123	Commerce	In these circumstances, the Committee would like the Ministry to make a comparative study of the methodologies adopted by the Department of Food and the State Trading Corporation as well as those adopted by other countries so as to determine, *inter alia*, whether there were any deficiencies in the method adopted by the Corporation and to see what improvements could be brought about in the present methods to ensure that sugar sales are effected at internationally competitive prices and the country is not placed at a disadvantage *vis-a-vis* other sugar exporting countries.
46.	2.124	-do-	One of the reasons for transfering the work relating to sugar exports to the State Trading Corporation from the Department of Food was that the Corporation which had its organisation abroad would be in a better position to obtain market intelligence and get better value for the sugar being exported. However, in the context of the actual performance of the State Trading Corporation, it is a moot point whether these expectations have been fulfilled in actual practice. The Committee are, therefore, of the view that it would be worthwhile to undertake a comparative study of the economics of exports effected through the Department of Food and those handled by the State Trading Corporation, with a view to identifying the areas of divergence and the causes for the somewhat lacklustre performance of the latter. The proposed study should also specifically examine in detail the reasons for the comparatively lower realisations accruing from the exports of Indian sugar at a point of time when the international sugar prices were rising sharply. The study, which assumes particu-

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			lar importance in the context of recent reports appearing in certain sections of the press of allegations of "widespread malpractices" in sugar exports by the State Trading Corporation, the general thrust of which was that many export deals were struck at rates below the international prices, there were unnecessary or inflated payments of commissions to brokers and under-invoicing of exports with a kick-back from the buyer going into secret bank accounts, should be entrusted to an independent agency unconnected either with the State Trading Corporation or the Department of Food.
47.	2·125	Commerce	As stated at the outset, the Committee are, in particular, thoroughly dissatisfied with the handling of the sugar deals with a commodity trader (Cie Noga of Geneva) not normally in the international sugar business and the renegotiation of the contracts concluded with him to the detriment of the country's interests. The Committee note that out of 6·32 lakh tonnes of sugar sold by the State Trading Corporation between April 1974 and March 1975, contracts had been concluded with Cie Noga for as large a quantity as 2·84 lakh tonnes [2·09 lakh tonnes upto August, 1974 at prices ranging between £ 267 and £ 315 per tonne f.o.b. and 0·75 lakh tonnes between December 1974 and March 1975 (0·11 lakh tonnes at $ 1135 per tonne f.o.b. in December 1974, 0·31 lakh tonnes at £ 295 per tonne f.o.b. on 10 March, 1975 and 0·33 lakh tonnes at £ 311·30 per tonne f.o.b. on 17 March, 1975)] and that while the contracts upto August, 1974 had been fully implemented, Cie Noga had taken delivery of only 0·12 lakh tonnes against the contract of 10 March, 1975 for 0·31 lakh tonnes and had defaulted in the performance of the other two contracts entirely and of the 10 March, 1975 contract partially. Strangely enough, however instead of taking recourse to the contractual provisions in regard to breach of contract, the State Trading Corporation had entered into a fresh contract, in July 1975, for 0·60 lakh tonnes in lieu of the rescinded contracts at the price of $ 525 (£219·39) per tonne on the ground that prospects of recovery of claims in the event of starting litigation were poor. As compared to the prices in the rescinded contracts of December 1974 and March 1975, the renegotiation of the contracts with Cie Noga had resulted in the short realisation of an amount of £ 78·95 lakhs (Rs. 14·91 crores).
48.	2·126	-do-	The Committee are concerned to find that before entering into such high value contracts with a new-comer in the sugar business, the State Trading Corporation had not thought it fit to make any enquiries in regard to the antecedents, financial position and other relevant details in regard to Cie Noga and that it was only more than two years later, in June 1976, after Cie Noga had defaulted, that some attempt had been made to conduct some

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			enquiries through the London branch of the State Bank of India in regard to the financial standing of the Geneva based trader. While the Secretary, Foreign Trade, was good enough to concede that the State Trading Corporation should have verified properly the bank credentials of the party before awarding big-value contracts, the State Trading Corporation have informed the Committee that prior to commencement of sugar exports, the Corporation had had an earlier dealing with Cie Noga in 1972 for the import of rapeseed oil where the performance "was satisfactory". The Committee have been further informed that the first offer for purchase of sugar from Cie Noga was received through Marpro, a London firm of brokers, who had earlier rendered competitive service to the Corporation and that "in view of previous relations", it had not been considered necessary to verify Cie Noga's standing.
49.	2·127	Commerce	It would, however, appear from the facts made available to the Committee that prior to 19 April, 1974 when the first sale of 11,000 tonnes of sugar was concluded with Cie Noga on the basis of an offer received from Marpro, the dealings of the State Trading Corporation with the London firm of brokers had been confined mainly to imports and exports of oils and only one contract for the import of 10,000 tonnes of Rapeseed Oil had been entered into with the principals, Cie Noga, some 18 months earlier, on 29 November, 1972. In these circumstances, the Committee are unable to appreciate the rationale for the State Trading Corporation having rushed into commitments with Cie Noga without adequately verifying the firm's standing. It is also somewhat strange that in spite of the fact that Cie Noga was a new entrant to the sugar business and the value of the contract was also over Rs. 5 crores, the first sale had been concluded without any reference to the Board of Directors of the State Trading Corporation at the level of the then Director in charge of sugar exports and had only been ratified subsequently by the Board.
50.	2·128	-do-	It has also been contended that the non-verification of the credentials of Cie Noga notwithstanding the performance of Cie Noga "was fully satisfactory" on every count till the later contracts of December 1974 and March 1975 had run into difficulties and that the prices offered by the firm were, in almost all the cases, higher than what was being offered by other parties and at which sugar was being sold to other parties. In this connection, the Committee find that while the contracts concluded till 27 August, 1974 for a total quantity of 2·09 lakh tonnes had been fully implemented, a contract for the export of 10,000 tonnes of Basmati Rice concluded with the same firm on 28 August, 1974 had also run into difficulties prior to the further sales of sugar effected in December 1974 and March 1975, as only a

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			quantity of 5,000 tonnes had been lifted by Cie Noga and an amount of $ 2·50 lakhs had been realised as liquidated damages from the firm for the default. It is also significant in this context that out of 13 sales made to Cie Noga between April 1974 and March 1975, prior approval of the Board of Directors of STC/the Sugar Exports Sales Committees (SESC) had been obtained only on four occasions. It would, therefore, appear that in respect of a majority of the transactions, the Board/SESC had been presented with a *fait accompli*.
51.	2·129	Commerce	Another reason attributed by the Commerce Ministry for the selection of Cie Noga for the sale of Indian sugar was that the Foreign Offices of the State Trading Corporation "were constantly on the look-out" for competitor to the traditional traders in sugar "so as to broad base, to the extent possible, the bidding and demand for Indian sugar." Yet, surprisingly enough, apart from Cie Noga, the State Trading Corporation had not been able to induce any other non-traditional competitors to make a successful bid for Indian Sugar, though as many as 76 enquiries/references/bids were stated to have been received during 1974-75 from Government agencies, foreign/Indian Companies, etc.
52.	2·130	-Do-	Yet another significant fact which emerges from the evidence is that two other leading trade houses in sugar (Sucres and Danres, Paris and E.D.F. & Man, London), who had not got any contract for the purchase of Indian sugar except for a quantity of 0·33 lakh tonnes and 0·36 lakh tonnes sold in April 1974 and March 1975 respectively, had actually repurchased 1·67 lakh tonnes, out of 3·46 lakh tonnes shipped upto December 1974, from those with whom these contracts were entered into, the principal one of which was Cie Noga. It has, no doubt, been contended by the State Trading Corporation that there was "nothing unusual or mysterious" about such transactions since it was "quite common for cargoes to change hands frequently before finding a final home." However, having due regard to the fact brought out earlier in this Report that sales of white sugar had been effected by the Corporation between July and September, 1974 at prices below the then ruling international prices, the Committee cannot resist the impression that Cie Noga had entered the sugar market more as a speculator and that having purchased sugar at lower prices from the State Trading Corporation when the market was bullish, had succeeded in re-selling the quantities at higher prices, thereby reaping considerable benefits at India's expense and that when the international prices started coming down subsequently from January 1975, the firm had contrived to wriggle out of its commitments to take delivery of the subsequent cargoes contracted at higher prices. This impression of the Committee is also reinforced by the fact that while the contract

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			in respect of the quantity of 11,000 tonnes sold on 19 December, 1974 had been duly signed and returned by Cie Noga on 21 January, 1975, two other contracts in respect of the sales concluded on 10 and 17 March, 1975 had not been received back, duly signed, by Cie Noga. Significantly enough, no reasons were also given by the firm for not returning these contracts.
53.	2·131	Commerce	The Committee find that the contracts entered into by the State Trading Corporation for sale of sugar to free world destinations provide, in the event of breach of contract for arbitration by the Council of Refined Sugar Association, London, whose decision is enforceable in law in the United Kingdom. Yet, instead of taking recourse to this provision, the Corporation had rescinded the three contracts which had not been implemented by Cie Noga and executed a fresh contract for 60,000 tonnes at the price of $ 525 (£ 219·39) per tonne in July 1975. Even after re-negotiation of the contract, there had been a further default in the performance of the contract, as only about 0·46 lakh tonnes had been lifted by Cie Noga The Committee have been informed that while full payment had been received for the quantities shipped (45,731 tonnes) an amount of Rs. 0·67 crore had been realised in respect of the quantity not lifted (13,419 tonnes) by encashing the bank guarantee. A further sum of Rs. 5·09 crores is also stated to have been realised by the resale of the quantity not lifted at Rs. 3,793.09) per tonne, as against the price of $ 525 (Rs. 4638.23 per tonne finalised with Cie Noga.
54.	2·132	-do-	The failure of Cie Noga to lift 0·63 lakh tonnes of sugar out of the total quantity of 0·75 lakh tonnes purchased by them in December, 1974 and March, 1975 has been attributed to the following : (i) A sharp fall in the international sugar prices soon after the finalisation of the contracts in question; (ii) the problems raised by Cie Noga's ultimate buyers (Sudan) about honouring their purchase commitments with the firm ; and (iii) Cie Noga's inability to raise finance for payment to STC against the 360 days' Sudanese letter of credit held by them. Asked to indicate the reasons for not resorting to legal action against Cie Noga for its default, in terms of the contract, and for renegotiating the contracts at a lesser price, the Committee have been informed, *inter alia*, by the State Trading Corporation that in the context of a declining market, "a settlement with Nogas actually offered a better alternative to making a distress sale or lose the opportunity of actual shipment by getting involved in litigation/arbitration". It has been further stated that a resort to litigation was not favoured as legal proceedings besides being time consuming would have involved expenditure in foreign exchange without certainty as to the final outcome and that while legal action in individual cases could perhaps lead to a questionable advantage

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			in view of the fact that the repurcussions of such actions generate considerable illwill, international trading houses often resolved disputed claims and counter-claims by mutual consultation rather than by resorting to arbitration or legal action.
55.	2·133	Commerce	It also appears from the evidence that the decision of the State Trading Corporation to accept the re-negotiated proposal of Cie Noga had been considerably influenced by the fact that two of the disputed contracts (10 and 17 March, 1975) had actually remained unsigned and that the legal repurcussions of this situation might not have strengthened the Corporation's position *vis-a-vis* that of Cie Noga.
56.	2·134	-do-	While conceding that the realisations from these transactions with Cie Noga were lower than what the Corporation would have got had the original contracts been enforced, the Chairman of the State Trading Corporation has, however, argued that if an objective view were to be taken of the whole episode, the Corporation had actually benefited from its association with Cie Noga. It has been further contended that on an overall basis the Corporation had not incurred a loss on its sugar transactions with Cie Noga and that the transactions had in fact resulted in a net gain of Rs. 10·18 crores. Certain statistics in support of this contention have also been furnished by the Corporation, from which the Committee find that the notional loss of Rs. 37·14 crores arising out of the failure of Cie Noga has been sought to be set off not only against the subsequent realisations from the re-negotiation of the disputed contracts (Rs. 21·21 crores), the amount realised by encashment of bank guarantee (Rs. 0·67 crores), and the amount realised by the resale of the quantity not lifted by Cie Noga against the re-negotiated contract (Rs. 5·09 crores) but also against the monetary advantage alleged to have accrued from other sales to Cie Noga during 1974-75 (Rs. 7·59 crores) and 1975-76 (Rs. 12·76 crores).
57.	2·135	-do-	The Committee are, to say the least, surprised by these arguments. It would appear, *prima facie*, that greater concern had been shown by the State Trading Corporation for extricating Cie Noga from its difficulties, alleged and real, than for safeguarding Government's interests. Since the fact that two of the disputed contracts had not been duly signed by Cie Noga also appears to have influenced the decision to accept the re-negotiated proposal, the Committee see no reason why these could not have been got executed promptly after the deals had been struck with Cie Noga on 10 and 17 March, 1975, instead of waiting till 8 May, 1975 when STC's standard contracts were forwarded for signature to Cie Noga by the London Office of the Corporation despite the fact that they had been asked on 31 March, 1975 itself to forward these contracts. In any case, the Committee are doubtful how far this would have come in the way of the Corporation enforcing its claims in view of the fact that Cie Noga had partially implemented

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			the contract of 10 March, 1975 by lifting a quantity of 12,100 tonnes out of 31,000 tonnes against this sale.
58.	2·136	Commerce	What is even more surprising is the fact that though the State Trading Corporation was only acting as an agent of the Department of Food, it had never sought the advice of that Department before taking a decision to rescind the disputed contracts and conduct negotiations with Cie Noga for the execution of a fresh contract; nor was the matter referred to the administrative Ministry (Ministry of Commerce) so as to obtain the Law Ministry's opinion. The Secretary, Foreign Trade, while informing the Committee in this context that in the normal course, if there was a default by any party in the execution of a contract, the State Trading Corporation did not have to go the Commerce Ministry or the Food Department and that in such circumstances it was the responsibility of the Board to take a decision, was good enough, however, to admit that if the Corporation had sought the Ministry's advice, they "would definitely have looked into the matter". Considering the fact that large sums of money were at stake, the Committee are firmly of the view that rather than taking a unilateral decision in this regard, the State Trading Corporation ought to have taken the Department of Food and the Commerce Ministry into confidence and proceeded on the basis of sound legal opinions, instead of relying only on a "commercial judgement". That this was not done is regrettable.
59.	2·137	-do-	It is also significant in this context that at the meeting of the Board of Directors of the State Trading Corporation held on 24 July, 1975, when alternative proposals to resolve the dispute with Cie Noga were considered, three of the five Government Directors on the Board (Additional Secretary, Ministry of Finance, a Joint Secretary of the Commerce Ministry and the Economic Adviser to the Ministry of Industrial Development) had expressed themselves in favour of recourse to arbitration and had also confirmed this in writing to the Chairman of the State Trading Corporation within about a week of the Board's meeting. However, the majority view to accept Cie Noga's offer to lift 0·60 lakh tonnes at the f.o.b. price of $525 per tonne appears to have prevailed. In the Committee's opinion, since conflicting views had been expressed on the question, particularly by the Government Directors, it would have been more appropriate if a final decision in this regard had been taken after consultations with the Government departments on whose behalf the deals were being handled.
60.	2·138	-do-	As regards the attempt at extenuation that the State Trading Corporation had not incurred any loss on its sugar transactions with Cie Noga if the totality of the transactions was taken into account and that the association had been beneficial, this can only be considered as very special pleading

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			and is by no means convincing. The basis for the claim that a monetary advantage of Rs. 20·35 crores had accrued to the State Trading Corporation from the quantities lifted by Cie Noga during 1974-75 and 1975-76, which in any case has no relevance to the point presently under consideration, have also not been indicated and can at best be considered hypothetical in view of the fact that many of the sales during 1974-75 had been effected below the then prevailing international prices. In any event in so far as the specific deals under examination are concerned, it is fairly obvious that Government, due to the mismanagement of the situation by the State Trading Corporation, had lost considerable foreign exchange which, according to the Corporation's own computation, works out to Rs. 10·17 crores.
61.	2·139	Commerce	The discussions in the preceding paragraphs add up to a situation which is far from complimentary to the State Trading Corporation. The Committee cannot but take a grave view of the various acts of omission and commission which has resulted in a huge loss to the exchequer. The Committee accordingly recommend that a thorough probe should be conducted into the circumstances in which high-value contracts had been awarded to Cie Noga without an adequate verification of credentials and a number of concessions had been extended to the firm even after it had defaulted twice to the detriment of the country's interests as well as the conduct of the officials responsible for handling the case. The part played in this somewhat dubious episode by the Indian and Foreign agents of Cie Noga (Engee International New Delhi, and Marpro of London) also needs to be gone into. The probe, in the Committee's view, should be entrusted to the Commission of Enquiry, the setting up which has been recommended earlier in paragraph 1·114.
62.	2·140	-do-	The Committee have been informed that apart from encashing the bank guarantee for the second default of Cie Noga in not lifting 13,419 tonnes out of the re-negotiated quantity of 60,000 tonnes and stopping all dealings with the firm, the question whether the State Trading Corporation could claim any further damages from Cie Noga for their default had been referred to a Senior Counsel in U.K. for his opinion and that further action in the case would be taken in the light of the Counsel's opinion. Now that considerable time has elapsed since then, the Committee would like to be apprised of the further developments in this regard and the action, if any, taken as a sequel thereto. It should also be examined whether any action is possible against the agents of Cie Noga.
63.	2·141	-do-	The Committee have also gained an impression, and this is reinforced by some of their earlier findings on the subject contained in the 160th Report (Fifth Lok Sabha), that the agents of Foreign Com-

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			panies and trade houses, particularly the Indian counterparts, are normally of no help and whatever service is rendered by them is also of little significance. Besides, the Indian agents often act only as contactment and appear to be more concerned with safeguarding the interests of their foreign principals often to the detriment of national interests. The Committee have been informed in this connection that there is no special machinery available with the State Trading Corporation to verify the antecedents and credentials of Indian agents of foreign firms. They are, therefore, firmly of the view that in the case of commodity trades, where no question of after-sales service or maintenance is involved, it should be possible to eliminate these middlemen agents and to deal directly with the foreign principals.
64.	2.142	Commerce	While the Committee note that certain steps in this direction have been taken by the State Trading Corporation and guidelines have been circulated to its divisions and subsidiaries in pursuance of a review conducted in November, 1973, they feel that a lot more needs to be done to tackle this problem in a more effective manner. The existing arrangements for the verification of the antecedents of Indian agents, where dealings with such agents are inescapable, also need to be strengthened so as to secure the interests of the country. The Committee, therefore, desire that the role played by agents in the transaction of the State Trading Corporation should again be comprehensively reviewed in the light of the experience gained so far and all necessary steps taken to minimise, if not altogether eliminate, dealings with agents.
65.	2.143	-do-	The Committee learn that information in regard to the Indian agents of foreign firms dealing with the State Trading Corporation and other Government and quasi-Government agencies is regularly exchanged only in respect of agents or firms who have been black-listed by the Chief Controller of Imports & Exports or otherwise placed on the 'caution list' circulated by competent authorities like the CCI&E, the Ministry of Home Affairs, etc. Further, under the law, the power to black-list firms can be exercised only by the Chief Controller of Imports & Exports and the State Trading Corporation is stated to have no system of black-listing of Indian agents. Having due regard to the role that some of these dubious 'agency' firms could play and the links and interconnections that exist between different firms, the Committee feel that this is not a very satisfactory arrangement. They would, therefore, like Government to review the existing legal provisions in this regard so as to bring about the desired improvements. A suitable system should also be devised to ensure a continuous and effective flow of information in regard to the performance of agents, Indian as well as foreign, between different Government and quasi-Government agencies and public sector Corporations. The Committee would await

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			a detailed report on the action taken in pursuance of these recommendations.
66.	2·144	Commerce	Yet another aspect which causes concern to the Committee relates to the functioning of the State Trading Corporation. The Committee were surprised to learn that while no enquiries had been initiated into the conduct of any official connected with sugar deals of the State Trading Corporation, as many as thirteen enquiries/investigations into the conduct of different officials of the Corporation, some of them in the higher income brackets, were being processed. This certainly does not speak well of the Organisation. The Committee would urge that apart from analysing in depth the causes for such a state of affairs and taking necessary measures to tighten the existing procedures, only officers of proven integrity should be selected, after the most careful screening, for appointment to executive and managerial positions. Officials found guilty of having abused their positions and indulged in malpractices should be proceeded against sternly and expeditiously. As earlier recommended in paragraph 6·16 of the Committee's 187th Report (Fifth Lok Sabha), a more positive and dynamic procedure has to be evolved in this regard so that punishments are graded according to the magnitude and seriousness of the lapse committed by the officials so that the positive action taken even in two or three cases acts as a deterrent to others.
67.	2·145	-do-	The discussions in the foregoing paragraphs also bring into sharp focus the need for evolving permanent strategy for sugar exports so as to mixi-mise export earnings and reduce costs. Now that the State Trading Corporation has been handling sugar exports on behalf of the Department of Food for well over three years the Committee are of the view that it would be worthwhile to review in detail the modalities employed by the Corporation for exports of sugar with a view to improving upon them and identifying areas where economies could be effected and overheads reduced. The Committee have been informed in this connection that certain proposals in regard to the export strategy for sugar submitted by the State Trading Corporation were considered by the Government who had decided that while on account of the nature of issues involved it would not be desirable to announce decisions on them, the Committee at the working level consisting of the Food and Commerce Secretaries, the Chief Economic Adviser and the Chairman of the State Trading Corporation should keep the situation under review and take appropriate decisions from time to time
68.	2·146	-do-	While the Committee trust that the Working Level Committee would continuously monitor and evaluate the performance of the State Trading Corporation in the sphere of exports and take prompt steps to remove hurdles and bottlenecks that may come in the way of export performance

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			they are, however, of the opinion that it would be desirable to announce decisions on some of the proposals of the State Trading Corporation such as reserving C/D/E 30 grade sugar for export, amending the Sugar (Packing & Marking) Order, 1970 to permit packing of sugar in 50 kg. poly-lined twill jute bags so as to facilitate handling of and minimise damage to export cargoes and making available institutionalised facilities for priority movement of export cargoes over railways adequate warehousing capacities and berthing priorities at the ports, so as to avoid any ambiguities and to streamline the existing procedures. They would, therefore, like Government to re-examine these issues in depth and would like to be apprised of the specific steps taken in this behalf.
69.	2·147	Commerce	The Indian share of world trade in sugar has ranged between 0·45% in 1972-73 to a maximum of 3% in 1974-75 and according to the State Trading Corporation, with advance planning and careful management, this could be raised from 3% to at least 5% or even 7% and steadily kept up at that figure. In the Committee's view, it should also be possible to obtain higher unit value realisations by experting sugar in a processed form and by improving the quality, colour and size of the crystals. Efforts also need to be directed towards maximising sugar exports to the Petro-dollar countries in the Middle East and evolving long-term measures for the export of sugar to these and other non-traditional countries which might offer potential markets for Indian sugar. While some steps like export of sugar cubes, change in packing, confining exports to Colour 30, etc. are stated to have been taken as experimental measures by the State Trading Corporation, the Committee feel that a lot more still needs to be done to give an impetus to exports of Indian sugar. The Committee have also been informed in this connection that the response from the OPEC countries for Indian sugar has been practically nil and that this lack of interest was attributable largely to the preference of the Middle East countries for a better quality sugar for which they have the capacity to pay. While the Committee would like the various experimental measures to be pursued to their logical conclusion, they would also urge Government to undertake a critical and in-depth study of the entire question of sugar exports so that factors affecting our export performance can be identified and remedial measures taken.

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	DELHI	
24.	Jain Book Agency, Connaught Place, New Delhi.	11
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11
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30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23
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32.	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	66
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34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
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39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON, W. C.-2.	59

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